TRICO BANCSHARES /
Form 10-Q
May 09, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

for the quarterly period ended: March 31, 2014

Transition Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

for the transition period from __________ to __________ .

Commission File Number: 000-10661

TriCo Bancshares

(Exact Name of Registrant as Specified in Its Charter)

CALIFORNIA	**94-2792841**
(State or Other Jurisdiction	**(I.R.S. Employer**
of Incorporation or Organization)	**Identification Number)**

63 Constitution Drive

Chico, California 95973

(Address of Principal Executive Offices)(Zip Code)

(530) 898-0300

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See definitions of accelerated filer , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

Indicate the number of shares outstanding for each of the issuer s classes of common stock, as of the latest practical date:

Common stock, no par value: 16,124,297 shares outstanding as of April 30, 2014

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TriCo Bancshares

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FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about TriCo Bancshares (the Company) that are subject to the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the current knowledge and belief of the Company s management (Management) and include information concerning the Company s possible or assumed future financial condition and results of operations. When you see any of the words believes , expects , anticipates , estimates , or similar expression it may mean the Company is making forward-looking statements. A number of factors, some of which are beyond the Company s ability to predict or control, could cause future results to differ materially from those contemplated. The reader is directed to the Company s annual report on Form 10-K for the year ended December 31, 2013, and Part II, Item 1A of this report for further discussion of factors which could affect the Company s business and cause actual results to differ materially from those suggested by any forward-looking statement made in this report. Such Form 10-K and this report should be read to put any forward-looking statements in context and to gain a more complete understanding of the risks and uncertainties involved in the Company s business. Any forward-looking statement may turn out to be wrong and cannot be guaranteed. The Company does not intend to update any forward-looking statement after the date of this report.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

TRICO BANCSHARES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data; unaudited)

	At March 31, 2014	At December 31, 2013
Assets:		
Cash and due from banks	$ 67,622	$ 76,915
Cash at Federal Reserve and other banks	434,629	521,453
Cash and cash equivalents	502,251	598,368
Investment securities:		
Available for sale	97,269	104,647
Held to maturity	344,523	240,504
Restricted equity securities	9,163	9,163
Loans held for sale	1,119	2,270
Loans	1,687,052	1,672,007
Allowance for loan losses	(38,322)	(38,245)
Total loans, net	1,648,730	1,633,762
Foreclosed assets, net	3,215	6,262
Premises and equipment, net	32,004	31,612
Cash value of life insurance	52,706	52,309
Accrued interest receivable	6,690	6,516
Goodwill	15,519	15,519
Other intangible assets, net	831	883
Mortgage servicing rights	6,107	6,165
Other assets	35,057	36,086
Total assets	$ 2,755,184	$ 2,744,066
Liabilities and Shareholders Equity:		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 728,492	$ 789,458
Interest-bearing	1,682,628	1,621,025
Total deposits	2,411,120	2,410,483

Accrued interest payable	865	938
Reserve for unfunded commitments	2,230	2,415
Other liabilities	36,035	31,711
Other borrowings	6,719	6,335
Junior subordinated debt	41,238	41,238
Total liabilities	2,498,207	2,493,120
Commitments and contingencies (Note 18)		
Shareholders equity:		
Common stock, no par value: 50,000,000 shares authorized; issued and outstanding:		
16,120,297 at March 31, 2014	91,773	
16,076,662 at December 31, 2013		89,356
Retained earnings	163,402	159,733
Accumulated other comprehensive income, net of tax	1,802	1,857
Total shareholders equity	256,977	250,946
Total liabilities and shareholders equity	$ 2,755,184	$ 2,744,066

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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TRICO BANCSHARES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data; unaudited)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Interest and dividend income:		
Loans, including fees	$ 23,738	$ 24,072
Debt securities:		
Taxable	2,822	1,131
Tax exempt	136	101
Dividends	154	56
Interest bearing cash at		
Federal Reserve and other banks	309	446
Total interest and dividend income	27,159	25,806
Interest expense:		
Deposits	782	925
Other borrowings	1	1
Junior subordinated debt	304	311
Total interest expense	1,087	1,237
Net interest income	26,072	24,569
Benefit from reversal of provision for loan losses	(1,355)	(1,108)
Net interest income after provision for loan losses	27,427	25,677
Noninterest income:		
Service charges and fees	5,462	5,929
Gain on sale of loans	464	2,294
Commissions on sale of non-deposit investment products	771	761
Increase in cash value of life insurance	397	426
Change in indemnification asset	(412)	(101)
Gain on sale of foreclosed assets	1,227	551
Other	386	358
Total noninterest income	8,295	10,218

Noninterest expense:		
Salaries and related benefits	13,303	12,961
Other	10,014	8,640
Total noninterest expense	23,317	21,601
Income before income taxes	12,405	14,294
Provision for income taxes	5,040	5,817
Net income	$ 7,365	$ 8,477
Earnings per share:		
Basic	$ 0.46	$ 0.53
Diluted	$ 0.45	$ 0.53

See accompanying notes to unaudited condensed consolidated financial statements.

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TRICO BANCSHARES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands; unaudited)

	Three months ended March 31, 2014	2013
Net income	$ 7,365	$ 8,477
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on available for sale securities arising during the period	(60)	(621)
Change in minimum pension liability	5	
Other comprehensive loss	(55)	(621)
Comprehensive income	$ 7,310	$ 7,856

See accompanying notes to unaudited condensed consolidated financial statements.

TRICO BANCSHARES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands, except share and per share data; unaudited)

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2012	16,000,838	$ 85,561	$ 141,639	$ 2,159	$ 229,359
Net income			8,477		8,477
Other comprehensive loss				(621)	(621)
Stock option vesting		236			236
Stock options exercised	20,000	262			262
Tax benefit of stock options exercised		20			20
Repurchase of common stock	(15,647)	(84)	(178)		(262)
Dividends paid ($0.09 per share)			(1,441)		(1,441)
Balance at March 31, 2013	16,005,191	$ 85,995	$ 148,497	$ 1,538	$ 236,030

Balance at December 31, 2013	16,076,662	$ 89,356	$ 159,733	$ 1,857	$ 250,946
Net income			7,365		7,365
Other comprehensive loss				(55)	(55)
Stock option vesting		296			296
Stock options exercised	144,020	2,495			2,495
Tax benefit of stock options exercised		184			184
Repurchase of common stock	(100,385)	(558)	(1,924)		(2,482)
Dividends paid ($0.11 per share)			(1,772)		(1,772)
Balance at March 31, 2014	16,120,297	$ 91,773	$ 163,402	$ 1,802	$ 256,977

See accompanying notes to unaudited condensed consolidated financial statements.

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TRICO BANCSHARES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands; unaudited)

	For the three months ended March 31, 2014	2013
Operating activities:		
Net income	$ 7,365	$ 8,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment, and amortization	1,463	982
Amortization of intangible assets	52	52
(Benefit from) provision for loan losses	(1,355)	(1,108)
Amortization of investment securities premium, net	156	214
Originations of loans for resale	(13,564)	(53,415)
Proceeds from sale of loans originated for resale	15,056	59,338
Gain on sale of loans	(464)	(2,294)
Change in market value of mortgage servicing rights	181	61
Provision for losses on foreclosed assets	36	27
Gain on sale of foreclosed assets	(1,227)	(551)
Loss on disposal of fixed assets	1	16
Increase in cash value of life insurance	(397)	(426)
Stock option vesting expense	296	236
Stock option excess tax benefits	(184)	(20)
Change in:		
Reserve for unfunded commitments	(185)	(440)
Interest receivable	(174)	(565)
Interest payable	(73)	(61)
Other assets and liabilities, net	5,303	2,056
Net cash from operating activities	12,286	12,579
Investing activities:		
Proceeds from maturities of securities available for sale	7,159	17,286
Proceeds from maturities of securities held to maturity	3,730	
Purchases of securities held to maturity	(107,790)	
Loan origination and principal collections, net	(14,326)	25,051
Improvement of foreclosed assets	(462)	
Proceeds from sale of other real estate owned	5,413	7,635
Proceeds from sale of premises and equipment	4	1
Purchases of premises and equipment	(1,577)	(3,241)
Life insurance proceeds		706
Net cash (used) provided by investing activities	(107,849)	47,438

Financing activities:				
Net increase (decrease) in deposits		637		(4,152)
Net change in other borrowings		384		(1,072)
Stock option excess tax benefits		184		20
Repurchase of common stock		(293)		
Dividends paid		(1,772)		(1,441)
Exercise of stock options		306		
Net cash used by financing activities		(554)		(6,645)
Net change in cash and cash equivalents		(96,117)		53,372
Cash and cash equivalents and beginning of year		598,368		748,899
Cash and cash equivalents at end of year	$	502,251	$	802,271
Supplemental disclosure of noncash activities:				
Unrealized (loss) gain on securities available for sale	$	(104)	$	(1,073)
Loans transferred to foreclosed assets	$	713	$	5,737
Market value of shares tendered in-lieu of cash to pay for exercise of options and/or related taxes	$	2,189		
Supplemental disclosure of cash flow activity:				
Cash paid for interest expense	$	1,160	$	1,298
Cash paid for income taxes			$	2,600

See accompanying notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

TriCo Bancshares is a California corporation organized to act as a bank holding company for Tri Counties Bank (the Bank). The Bank is a state-chartered financial institution that is engaged in the general commercial banking business in the California counties of Butte, Contra Costa, Del Norte, Fresno, Glenn, Kern, Lake, Lassen, Madera, Mendocino, Merced, Napa, Nevada, Placer, Sacramento, Shasta, Siskiyou, Stanislaus, Sutter, Tehama, Tulare, Yolo and Yuba. Tri Counties Bank currently operates from 41 traditional branches and 22 in-store branches. The Company also formed two subsidiary business trusts, TriCo Capital Trust I and TriCo Capital Trust II (collectively, the Trusts), to issue trust preferred securities.

The following unaudited condensed financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of Management, all adjustments, consisting solely of normal recurring adjustments, considered necessary for a fair presentation of results for the interim periods presented have been included. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company s 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 6, 2014.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned financial subsidiary, Tri Counties Bank. All significant intercompany balances and transactions have been eliminated. TriCo Capital Trust I and TriCo Capital Trust II, which were formed solely for the purpose of issuing trust preferred securities, are unconsolidated subsidiaries as the Company is not the primary beneficiary of the trusts and they are not considered variable interest entities. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. Certain amounts in the consolidated financial statements for the year ended December 31, 2013 and for the three months ended March 31, 2013 may have been reclassified to conform to the presentation of the condensed consolidated financial statements in 2014.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including those related to the adequacy of the allowance for loan losses, investments, intangible assets, income taxes and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The allowance for loan losses, indemnification asset, foreclosed assets, goodwill and other intangible assets, income taxes, fair value of assets acquired and liabilities assumed in business combinations, the valuation of securities available-for-sale, and the valuation of mortgage servicing rights are the only accounting estimates that materially affect the Company s consolidated financial statements.

During each of 2011 and 2010, the Bank assumed the banking operations of a failed financial institution from the FDIC under whole bank purchase agreement. The acquired assets and assumed liabilities were measured at estimated fair value values under the acquisition method of accounting. The Company made significant estimates and exercised significant judgment in accounting for the acquisitions. The Company determined loan fair values based on loan file reviews, loan risk ratings, appraised collateral values, expected cash flows and historical loss factors. Foreclosed assets were primarily valued based on appraised values of the repossessed loan collateral. An identifiable intangible was also recorded representing the fair value of the core deposit customer base based on an evaluation of the cost of such deposits relative to alternative funding sources. The fair value of time deposits and borrowings were determined based on the present value of estimated future cash flows using current rates as of the acquisition date.

Significant Group Concentration of Credit Risk

The Company grants agribusiness, commercial, consumer, and residential loans to customers located throughout the northern San Joaquin Valley, the Sacramento Valley and northern mountain regions of California. The Company has a diversified loan portfolio within the business segments located in this geographical area. The Company currently classifies all its operations into one business segment that it denotes as community banking.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Net cash flows are reported for loan and deposit transactions and other borrowings.

Investment Securities

The Company classifies its debt and marketable equity securities into one of three categories: trading, available for sale or held to maturity. Trading securities are bought and held principally for the purpose of selling in the near term. Held to maturity securities are those securities which the Company has the ability and intent to hold until maturity. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the effective interest method over their contractual lives. All other securities not included in trading or held to maturity are classified as available for sale. Available for sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available for sale securities are reported as a separate component of other accumulated comprehensive income in shareholders equity until realized. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses are derived from the amortized cost of the security sold. During the three months ended March 31, 2014 and the year ended December 31, 2013, the Company did not have any securities classified as trading. During the three months ended March 31, 2013, the Company did not have any securities classified as held to maturity.

The Company assesses other-than-temporary impairment (OTTI) based on whether it intends to sell a security or if it is likely that the Company would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. For debt securities, if the Company intends to sell the security or it is likely that it will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If the Company does not intend to sell the security and it is not likely that it will be required to sell the security but it does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are presented as separate categories within OCI. The accretion of the amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above. No OTTI losses were recognized during the three months ended March 31, 2014 or the year ended December 31, 2013.

Restricted Equity Securities

Restricted equity securities represent the Company s investment in the stock of the Federal Home Loan Bank of San Francisco (FHLB) and are carried at par value, which reasonably approximates its fair value. While technically these are considered equity securities, there is no market for the FHLB stock. Therefore, the shares are considered as restricted investment securities. Management periodically evaluates FHLB stock for other-than-temporary impairment. Management s determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB, and (4) the liquidity position of the FHLB.

As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets, or FHLB advances. The Company may request redemption at par value of any stock in excess of the minimum required investment. Stock redemptions are at the discretion of the FHLB.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors of current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to noninterest income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. Gains or losses on the sale of loans that are held for sale are recognized at the time of the sale and determined by the difference between net sale proceeds and the net book value of the loans less the estimated fair value of any retained mortgage servicing rights.

Loans and Allowance for Loan Losses

Loans originated by the Company, i.e., not purchased or acquired in a business combination, are referred to as originated loans. Originated loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amount outstanding, net of deferred loan fees and costs. Loan origination and commitment fees and certain direct loan origination costs are deferred, and the net amount is amortized as an adjustment of the related loan s yield over the actual life of the loan. Originated loans on which the accrual of interest has been discontinued are designated as nonaccrual loans.

Originated loans are placed in nonaccrual status when reasonable doubt exists as to the full, timely collection of interest or principal, or a loan becomes contractually past due by 90 days or more with respect to interest or principal and is not well secured and in the process of collection. When an originated loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of Management, the loan is estimated to be fully collectible as to both principal and interest.

An allowance for loan losses for originated loans is established through a provision for loan losses charged to expense. The allowance is maintained at a level which, in Management s judgment, is adequate to absorb probable incurred credit losses inherent in the loan portfolio as of the balance sheet date. Originated loans and deposit related overdrafts are charged against the allowance for loan losses when Management believes that the collectability of the principal is unlikely or, with respect to consumer installment loans, according to an established delinquency schedule. The allowance is an amount that Management believes will be adequate to absorb probable incurred losses inherent in existing loans and leases, based on evaluations of the collectability, impairment and prior loss experience of loans and leases. The evaluations take into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrower s ability to pay. The Company defines an originated loan as impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired originated loans are measured based on the present value of expected future cash flows discounted at the loan s original effective interest rate. As a practical expedient, impairment may be measured based on the loan s observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

In situations related to originated loans where, for economic or legal reasons related to a borrower s financial difficulties, the Company grants a concession for other than an insignificant period of time to the borrower that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Company strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Company grants the borrower new terms that result in the loan being classified as a TDR, the Company measures any impairment on the restructuring as noted above for impaired loans. TDR loans are classified as impaired until they are fully paid off or charged off. Loans that are in nonaccrual status at the time they become TDR loans, remain in nonaccrual status until the borrower demonstrates a sustained period of performance which the Company generally believes to be six consecutive months of payments, or equivalent. Otherwise, TDR loans are subject to the same nonaccrual and charge-off policies as noted above with respect to their restructured principal balance.

Credit risk is inherent in the business of lending. As a result, the Company maintains an allowance for loan losses to absorb probable incurred losses inherent in the Company s originated loan portfolio. This is maintained through periodic charges to earnings. These charges are included in the Consolidated Statements of Income as provision for loan losses. All specifically identifiable and quantifiable losses are immediately charged off against the allowance. However, for a variety of reasons, not all losses are immediately known to the Company and, of those that are known, the full extent of the loss may not be quantifiable at that point in time. The balance of the Company s allowance for originated loan losses is meant to be an estimate of these unknown but probable losses inherent in the portfolio.

The Company formally assesses the adequacy of the allowance for originated loan losses on a quarterly basis. Determination of the adequacy is based on ongoing assessments of the probable risk in the outstanding originated loan portfolio, and to a lesser extent the Company s originated loan commitments. These assessments include the periodic re-grading of credits based on changes in their individual credit characteristics including delinquency, seasoning, recent financial performance of the borrower, economic factors, changes in the interest rate environment, growth of the portfolio as a whole or by segment, and other factors as warranted. Loans are initially graded when originated. They are re-graded as they are renewed, when there is a new loan to the same borrower, when identified facts demonstrate heightened risk of nonpayment, or if they become delinquent. Re-grading of larger problem loans occurs at least quarterly. Confirmation of the quality of the grading process is obtained by independent credit reviews conducted by consultants specifically hired for this purpose and by various bank regulatory agencies.

The Company s method for assessing the appropriateness of the allowance for originated loan losses includes specific allowances for impaired originated loans and leases, formula allowance factors for pools of credits, and allowances for changing environmental factors (e.g., interest rates, growth, economic conditions, etc.). Allowance factors for loan pools were based on historical loss experience by product type and prior risk rating.

During the three months ended March 31, 2013, the Company changed the method it uses to estimate net sale proceeds from real estate collateral sales when calculating the allowance for loan losses associated with impaired real estate collateral dependent loans. Previously, the Company used the greater of fifteen percent or actual estimated selling costs. Currently, the Company uses the actual estimated selling costs, and an adjustment to appraised value based on the age of the appraisal. These changes are intended to more accurately reflect the estimated net sale proceeds from the sale of impaired collateral dependent real estate loans. This change in methodology resulted in the allowance for loan losses as of March 31, 2013 being $494,000 more than it would have been without this change in methodology.

During the three months ended June 30, 2013, the Company modified its loss migration analysis methodology used to determine the formula allowance factors. When the Company originally established its loss migration analysis methodology during the quarter ended March 31, 2012, it reviewed the loss experience of each rolling twelve month period over the previous three years in order to calculate an annualized loss rate by loan category and risk rating. The use of three years of loss experience data was originally used because that was the extent of the detailed loss data, by loan category and risk rating that was available at the time. This three year historical look-back period was used through the quarter ended March 31, 2013. Starting with the quarter ended June 30, 2013, the Company reviews all available detailed loss experience data, going back to, and including, the twelve month period ended June 30, 2009, and does not limit the look-back period to the most recent three years of historical loss data. Using this data, the Company calculates loss factors for each quarter from the quarter ended June 30, 2009 to the most recent quarter. The Company then calculates a weighted average formula allowance factor for each loan category and risk rating with the most recent quarterly loss factor being weighted 125%, the quarter ended June 30, 2009 loss factor being weighted 75%, and the loss factors for all the quarters between the most recent quarter and the quarter ended June 30, 2009, being weighted on a linear scale from 75% to 125%. This change is intended to more accurately reflect the risk inherent in the loan portfolio by considering historical loss data for all years as the data for new periods becomes available. This change in methodology resulted in the allowance for loan losses as of June 30, 2013 being $1,314,000 more than it would have been without this change in methodology.

During the three months ended September 30, 2013, the Company modified its methodology used to determine the allowance for changing environmental factors. Previously, the Company compared the current value of each environmental factor to a fixed baseline value. The deviation of the current value from the baseline value was then multiplied by a conversion factor to determine the required allowance related to each environmental factor. As of September 30, 2013, the Company replaced the fixed baseline values with average baseline values derived from historical averages, and adjusted the conversion factors. This change is intended to more accurately reflect the risk inherent in the portfolio by recognizing that baseline, or normal, levels for environmental factors may change over time. This change in methodology resulted in the allowance for loan losses as of September 30, 2013 being $1,665,000 more than it would have been without this change in methodology.

During the three months ended March 31, 2014, the Company modified its methodology used to determine the allowance for changing environmental factors by adding a new environmental factor based on the California Home Affordability Index (CHAI). The CHAI measures the percentage of households in California that can afford to purchase the median priced home in California based on current home prices and mortgage interest rates. The use of the CHAI environmental factor consists of comparing the current CHAI to its historical baseline, and allows management to consider the adverse impact that a lower than historical CHAI may have on general economic activity and the performance of our borrowers. Based on an analysis of historical data, management believes this environmental factor gives a better estimate of current economic activity compared to other environmental factors that may lag current economic activity to some extent. This change in methodology resulted in no change to the allowance for loan losses as of March 31, 2014 compared to what it would have been without this change in methodology.

Loans purchased or acquired in a business combination are referred to as acquired loans. Acquired loans are valued as of the acquisition date in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 805, *Business Combinations*. Loans acquired with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are referred to as purchased credit impaired (PCI) loans. PCI loans are accounted for under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Under FASB ASC Topic 805 and FASB ASC Topic 310-30, PCI loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. Fair value is defined as the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. Default rates, loss severity, and prepayment speed assumptions are periodically reassessed and our estimate of future payments is adjusted accordingly. The difference between contractual future payments and estimated future payments is referred to as the nonaccretable difference. The difference between estimated future payments and the present value of the estimated future payments is referred to as the accretable yield. The accretable yield represents the amount that is expected to be recorded as interest income over the remaining life of the loan. If after acquisition, the Company determines that the estimated future cash flows of a PCI loan are expected to be more than originally estimated, an increase in the discount rate (effective yield) would be made such that the newly increased accretable yield would be recognized, on a level yield basis, over the remaining estimated life of the loan. If, after acquisition, the Company determines that the estimated future cash flows of a PCI loan are expected to be less than previously estimated, the discount rate would first be reduced until the present value of the reduced cash flow estimate equals the previous present value however, the discount rate may not be lowered below its original level at acquisition. If the discount rate has been lowered to its original level and the present value has not been sufficiently lowered, an allowance for loan loss would be established through a provision for loan losses charged to expense to decrease the present value to the required level. If the estimated cash flows improve after an allowance has been established for a loan, the allowance may be partially or fully reversed depending on the improvement in the estimated cash flows. Only after the allowance has been fully reversed may the discount rate be increased. PCI loans are put on nonaccrual status when cash flows cannot be reasonably estimated. PCI loans on nonaccrual status are accounted for using the cost recovery method or cash basis method of income recognition. PCI loans are charged off when evidence suggests cash flows are not recoverable. Foreclosed assets from PCI loans are recorded in foreclosed assets at fair value with the fair value at time of foreclosure representing cash flow from the loan. ASC 310-30 allows PCI loans with similar risk characteristics and acquisition time frame to be pooled and have their cash flows aggregated as if they were one loan. The Company elected to use the pooled method of ASC 310-30 for PCI other loans in the acquisition of certain assets and liabilities of Granite Community Bank, N.A. (Granite) during 2010 and Citizens Bank of Northern California (Citizens) during

2011.

Acquired loans that are not PCI loans are referred to as purchased not credit impaired (PNCI) loans. PNCI loans are accounted for under FASB ASC Topic 310-20, *Receivables Nonrefundable Fees and Other Costs,* in which interest income is accrued on a level-yield basis for performing loans. For income recognition purposes, this method assumes that all contractual cash flows will be collected, and no allowance for loan losses is established at the time of acquisition. Post-acquisition date, an allowance for loan losses may need to be established for acquired loans through a provision charged to earnings for credit losses incurred subsequent to acquisition. Under ASC 310-20, the loss would be measured based on the probable shortfall in relation to the contractual note requirements, consistent with our allowance for loan loss policy for similar loans.

Throughout these financial statements, and in particular in Note 4 and Note 5, when we refer to Loans or Allowance for loan losses we mean all categories of loans, including Originated, PNCI, PCI cash basis, and PCI - other. When we are not referring to all categories of loans, we will indicate which we are referring to Originated, PNCI, PCI cash basis, or PCI - other.

When referring to PNCI and PCI loans we will use the terms nonaccretable difference , accretable yield , or purchase discount . Nonaccretable difference is the difference between undiscounted contractual cash flows due and undiscounted cash flows we expect to collect, or put another way, it is the undiscounted contractual cash flows we do not expect to collect. Accretable yield is the difference between undiscounted cash flows we expect to collect and the value at which we have recorded the loan on our financial statements. On the date of acquisition, all purchased loans are recorded on our consolidated financial statements at estimated fair value. Purchase discount is the difference between the estimated fair value of loans on the date of acquisition and the principal amount owed by the borrower, net of charge offs, on the date of acquisition. We may also refer to discounts to principal balance of loans owed, net of charge-offs . Discounts to principal balance of loans owed, net of charge-offs is the difference between principal balance of loans owed, net of charge-offs, and loans as recorded on our financial statements. Discounts to principal balance of loans owed, net of charge-offs arise from purchase discounts, and equal the purchase discount on the acquisition date.

Loans are also categorized as covered or noncovered . Covered loans refer to loans covered by a Federal Deposit Insurance Corporation (FDIC) loss sharing agreement. Noncovered loans refer to loans not covered by a FDIC loss sharing agreement.

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Foreclosed Assets

Foreclosed assets include assets acquired through, or in lieu of, loan foreclosure. Foreclosed assets are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense. Gain or loss on sale of foreclosed assets is included in noninterest income. Foreclosed assets that are not subject to a FDIC loss-share agreement are referred to as noncovered foreclosed assets.

Foreclosed assets acquired through FDIC-assisted acquisitions that are subject to a FDIC loss-share agreement, and all assets acquired via foreclosure of covered loans are referred to as covered foreclosed assets. Covered foreclosed assets are reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral is transferred into covered foreclosed assets at the loan s carrying value, inclusive of the acquisition date fair value discount.

Covered foreclosed assets are initially recorded at estimated fair value less estimated costs to sell on the acquisition date based on similar market comparable valuations less estimated selling costs. Any subsequent valuation adjustments due to declines in fair value will be charged to noninterest expense, and will be mostly offset by noninterest income representing the corresponding increase to the FDIC indemnification asset for the offsetting loss reimbursement amount. Any recoveries of previous valuation adjustments will be credited to noninterest expense with a corresponding charge to noninterest income for the portion of the recovery that is due to the FDIC.

Premises and Equipment

Land is carried at cost. Land improvements, buildings and equipment, including those acquired under capital lease, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are computed using the straight-line method over the estimated useful lives of the related assets or lease terms. Asset lives range from 3-10 years for furniture and equipment and 15-40 years for land improvements and buildings.

Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

The Company has an identifiable intangible asset consisting of core deposit intangibles (CDI). CDI are amortized over their respective estimated useful lives, and reviewed for impairment.

Impairment of Long-Lived Assets and Goodwill

Long-lived assets, such as premises and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

As of December 31 of each year, goodwill is tested for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. This determination is made at the reporting unit level. The Company may choose to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then goodwill is deemed not to be impaired. However, if the Company concludes otherwise, or if the Company elected not to first assess qualitative factors, then the Company performs the first step of a two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Currently, and historically, the Company is comprised of only one reporting unit that operates within the business segment it has identified as community banking . Goodwill was not impaired as of December 31, 2013 because the fair value of the reporting unit exceeded its carrying value.

Mortgage Servicing Rights

Mortgage servicing rights (MSR) represent the Company s right to a future stream of cash flows based upon the contractual servicing fee associated with servicing mortgage loans. Our MSR arise from residential mortgage loans that we originate and sell, but retain the right to service the loans. The net gain from the retention of the servicing right is included in gain on sale of loans in noninterest income when the loan is sold. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Servicing fees are recorded in noninterest income when earned.

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The Company accounts for MSR at fair value. The determination of fair value of our MSR requires management judgment because they are not actively traded. The determination of fair value for MSR requires valuation processes which combine the use of discounted cash flow models and extensive analysis of current market data to arrive at an estimate of fair value. The cash flow and prepayment assumptions used in our discounted cash flow model are based on empirical data drawn from the historical performance of our MSR, which we believe are consistent with assumptions used by market participants valuing similar MSR, and from data obtained on the performance of similar MSR. The key assumptions used in the valuation of MSR include mortgage prepayment speeds and the discount rate. These variables can, and generally will, change from quarter to quarter as market conditions and projected interest rates change. The key risks inherent with MSR are prepayment speed and changes in interest rates. The Company uses an independent third party to determine fair value of MSR.

Indemnification Asset

The Company accounts for amounts receivable or payable under its loss-share agreements entered into with the FDIC in connection with its purchase and assumption of certain assets and liabilities of Granite as indemnification assets in accordance with FASB ASC Topic 805, *Business Combinations*. FDIC indemnification assets are initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreements. The difference between the fair value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted into noninterest income over the life of the FDIC indemnification asset. FDIC indemnification assets are reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolios. These adjustments are measured on the same basis as the related covered loans and covered other real estate owned. Any increases in cash flow of the covered assets over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the covered assets under those expected will increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to noninterest income.

Reserve for Unfunded Commitments

The reserve for unfunded commitments is established through a provision for losses unfunded commitments charged to noninterest expense. The reserve for unfunded commitments is an amount that Management believes will be adequate to absorb probable losses inherent in existing commitments, including unused portions of revolving lines of credits and other loans, standby letters of credits, and unused deposit account overdraft privilege. The reserve for unfunded commitments is based on evaluations of the collectability, and prior loss experience of unfunded commitments. The evaluations take into consideration such factors as changes in the nature and size of the loan portfolio, overall loan portfolio quality, loan concentrations, specific problem loans and related unfunded commitments, and current economic conditions that may affect the borrower s or depositor s ability to pay.

During the three months ended June 30, 2013, the Company modified the methodology employed to estimate potential losses on unfunded commitments. Similar to the Allowance for Loan Losses, the Company performs a migration analysis of historical loss experience. Prior to this quarter, the loss experience of each quarter over the previous three years was reviewed in order to calculate an annualized loss rate by loan category. Going forward, the Company has chosen to review all loss experience available since the conversion to a loss migration analysis. This change is intended to more accurately reflect the risk inherent in the unfunded commitments and appropriately consider all losses incurred in prior years. This change in methodology resulted in the reserve for unfunded commitments as of June 30, 2013 being $335,000 more than it would have been without this change in methodology.

Income Taxes

The Company s accounting for income taxes is based on an asset and liability approach. The Company recognizes the amount of taxes payable or refundable for the current year, and deferred tax assets and liabilities for the future tax consequences that have been recognized in its financial statements or tax returns. The measurement of tax assets and liabilities is based on the provisions of enacted tax laws. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized. Interest and/or penalties related to income taxes are reported as a component of noninterest income.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Geographical Descriptions

For the purpose of describing the geographical location of the Company s loans, the Company has defined northern California as that area of California north of, and including, Stockton; central California as that area of the state south of Stockton, to and including, Bakersfield; and southern California as that area of the state south of Bakersfield.

Reclassifications

Certain amounts reported in previous consolidated financial statements have been reclassified to conform to the presentation in this report. These reclassifications did not affect previously reported net income or total shareholders equity.

Recent Accounting Pronouncements

FASB issued ASU No. 2014-04, *Receivables (Topic 310): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* ASU 2014-04 clarifies when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU 2014-04 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. ASU 2014-04 is not expected to have a significant impact on the Company s consolidated financial statements.

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FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* ASU 2014-08 improves the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity s operations and financial results. ASU 2014-08 requires expanded disclosures for discontinued operations that provide users of financial statements with more information about the assets, liabilities, revenues, and expenses of discontinued operations. ASU 2014-08 also requires an entity to disclose the pretax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting, and provide users with information about the financial effects of significant disposals that do not qualify for discontinued operations reporting. The amendments in ASU 2014-08 include several changes to the Accounting Standards Codification to improve the organization and readability of Subtopic 205-20 and Subtopic 360-10, Property, Plant, and Equipment Overall. ASU 2014-08 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. ASU 2014-08 is not expected to have a significant impact on the Company s consolidated financial statements.

Note 2 - Business Combinations

On January 21, 2014, TriCo announced that it had entered into an Agreement and Plan of Merger and Reorganization under which it would acquire North Valley Bancorp. North Valley Bancorp shareholders will receive a fixed exchange ratio of 0.9433 shares of TriCo common stock for each share of North Valley Bancorp common stock, which would provide North Valley Bancorp shareholders with aggregate ownership, on a pro forma basis, of approximately 28.6% of the common stock of the combined company. Based on TriCo s closing stock price of $27.66 on January 17, 2014, North Valley Bancorp shareholders would have received consideration valued at approximately $26.09 per share.

The merger will not be completed unless a number of customary closing conditions are met, including, among others, approval of the merger by shareholders of both companies, the registration of the offering of the TriCo common stock to the North Valley Bancorp shareholders under the Securities Act of 1933, receipt of required regulatory and other approvals and the expiration of applicable statutory waiting periods, the accuracy of specified representations and warranties of each party, the receipt of tax opinions confirming certain tax aspects of the merger, North Valley Bancorp s satisfaction of certain financial measures shortly prior to closing, and the absence of any injunctions or other legal restraints. If the Merger Agreement is terminated, under certain circumstances, TriCo could be required to pay a termination fee to North Valley Bancorp equal to $3,800,000.

TriCo has agreed to appoint three North Valley Bancorp directors to TriCo s board upon closing of the merger. The merger is expected to be completed in the third quarter of 2014, subject to approval of the merger by shareholders of both companies, receipt of required regulatory and other approvals and satisfaction of customary closing conditions.

North Valley Bancorp, headquartered in Redding, California, is the parent of North Valley Bank and had approximately $917.8 million in assets and 22 commercial banking offices in Shasta, Humboldt, Del Norte, Mendocino, Yolo, Sonoma, Placer and Trinity Counties in Northern California at December 31, 2013. In connection with the acquisition, North Valley Bank will merge into Tri Counties Bank.

As of December 31, 2013, on a pro forma consolidated basis with North Valley, TriCo would have had approximately $3.61 billion in assets.

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Note 3 - Investment Securities

The amortized cost and estimated fair values of investments in debt and equity securities are summarized in the following tables:

	March 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Securities Available for Sale				
Obligations of U.S. government corporations and agencies	$ 86,803	$ 4,226	$ (242)	$ 90,787
Obligations of states and political subdivisions	4,489	76		4,565
Corporate debt securities	1,880	37		1,917
Total securities available for sale	$ 93,172	$ 4,339	$ (242)	$ 97,269
Securities Held to Maturity				
Obligations of U.S. government corporations and agencies	$ 331,892	$ 1,327	$ (3,154)	$ 330,065
Obligations of states and political subdivisions	12,631		(730)	11,901
Total securities held to maturity	$ 344,523	$ 1,327	$ (3,884)	$ 341,966

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Securities Available for Sale				
Obligations of U.S. government corporations and agencies	$ 93,055	$ 4,445	$ (357)	$ 97,143
Obligations of states and political subdivisions	5,513	77	(1)	5,589
Corporate debt securities	1,877	38		1,915
Total securities available for sale	$ 100,445	$ 4,560	$ (358)	$ 104,647
Securities Held to Maturity				
Obligations of U.S. government corporations and agencies	$ 227,864	$ 298	$ (5,540)	$ 222,622
Obligations of states and political subdivisions	12,640		(1,455)	11,185

Total securities held to maturity	$ 240,504	$ 298	$ (6,995)	$ 233,807

No investment securities were sold during the three months ended March 31, 2014 or the year ended December 31, 2013. Investment securities with an aggregate carrying value of $58,870,000 and $62,064,000 at March 31, 2014 and December 31, 2013, respectively, were pledged as collateral for specific borrowings, lines of credit and local agency deposits.

The amortized cost and estimated fair value of debt securities at March 31, 2014 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. At March 31, 2014, obligations of U.S. government corporations and agencies with a cost basis totaling $418,695,000 consist almost entirely of mortgage-backed securities whose contractual maturity, or principal repayment, will follow the repayment of the underlying mortgages. For purposes of the following table, the entire outstanding balance of these mortgage-backed securities issued by U.S. government corporations and agencies is categorized based on final maturity date. At March 31, 2014, the Company estimates the average remaining life of these mortgage-backed securities issued by U.S. government corporations and agencies to be approximately 5.8 years. Average remaining life is defined as the time span after which the principal balance has been reduced by half.

Investment Securities	Available for Sale		Held to Maturity	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year	$ 408	$ 432		
Due after one year through five years	3,407	3,520		
Due after five years through ten years	30,236	31,182		
Due after ten years	59,121	62,135	$ 344,523	$ 341,966
Totals	$ 93,172	$ 97,269	$ 344,523	$ 341,966

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Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	Less than 12 months		12 months or more		Total	
March 31, 2014	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(in thousands)			
Securities available for sale:						
Obligations of U.S. government corporations and agencies	$ 10,156	$ (242)			$ 10,156	$ (242)
Obligations of states and political subdivisions						
Corporate debt securities						
Total securities available for sale	$ 10,156	$ (242)			$ 10,156	$ (242)
Securities held to maturity:						
Obligations of U.S. government corporations and agencies	$ 163,349	$ (3,154)			$ 163,349	$ (3,154)
Obligations of states and political subdivisions	11,901	(730)			11,901	(730)
Total securities held to maturity	$ 175,250	$ (3,884)			$ 175,250	$ (3,884)

	Less than 12 months		12 months or more		Total	
December 31, 2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(in thousands)			
Securities available for sale:						
Obligations of U.S. government corporations and agencies	$ 10,287	$ (357)			$ 10,287	$ (357)
Obligations of states and political subdivisions	199	(1)			199	(1)
Corporate debt securities						
Total securities available for sale	$ 10,486	$ (358)			$ 10,486	$ (358)
Securities held to maturity:						
Obligations of U.S. government corporations and agencies	$ 188,218	$ (5,540)			$ 188,218	$ (5,540)
Obligations of states and political subdivisions	11,185	(1,455)			11,185	(1,455)
Total securities held to maturity	$ 199,403	$ (6,995)			$ 199,403	$ (6,995)

Obligations of U.S. government corporations and agencies: Unrealized losses on investments in obligations of U.S. government corporations and agencies are caused by interest rate increases. The contractual cash flows of these securities are guaranteed by U.S. Government Sponsored Entities (principally Fannie Mae and Freddie Mac). It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At March 31, 2014, 24 debt securities representing obligations of U.S. government corporations and agencies had unrealized losses with aggregate depreciation of 1.92% from the Company s amortized cost basis.

Obligations of states and political subdivisions: The unrealized losses on investments in obligations of states and political subdivisions were caused by increases in required yields by investors in these types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, these investments are not considered other-than-temporarily impaired. At March 31, 2014, 14 debt securities representing obligations of states and political subdivisions had unrealized losses with aggregate depreciation of 5.78% from the Company s amortized cost basis.

Corporate debt securities: At March 31, 2014, no corporate debt securities had unrealized losses.

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Note 4 Loans

A summary of loan balances follows (in thousands):

	March 31, 2014				
	Originated	PNCI	PCI - Cash basis	PCI - Other	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 134,624	$ 56,700		$ 4,502	$ 195,826
Commercial	844,458	55,797		30,217	930,472
Total mortgage loan on real estate	979,082	112,497		34,719	1,126,298
Consumer:					
Home equity lines of credit	314,832	13,105	$ 6,030	3,835	337,802
Home equity loans	15,031	265		480	15,776
Auto Indirect	575				575
Other	25,653	1,905		75	27,633
Total consumer loans	356,091	15,275	6,030	4,390	381,786
Commercial	112,518	621	14	6,265	119,418
Construction:					
Residential	35,946			1,448	37,394
Commercial	22,100			56	22,156
Total construction	58,046			1,504	59,550
Total loans, net of deferred loan fees and discounts	$ 1,505,737	$ 128,393	$ 6,044	$ 46,878	$ 1,687,052
Total principal balance of loans owed, net of charge-offs	$ 1,509,644	$ 136,049	$ 16,096	$ 55,328	$ 1,717,117
Unamortized net deferred loan fees	(3,907)				(3,907)
Discounts to principal balance of loans owed, net of charge-offs		(7,656)	(10,052)	(8,450)	(26,158)
Total loans, net of unamortized deferred loan fees and discounts	$ 1,505,737	$ 128,393	$ 6,044	$ 46,878	$ 1,687,052
Noncovered loans	$ 1,505,737	$ 128,393	$ 6,044	$ 19,499	$ 1,667,553
Covered loans				27,379	27,379
Total loans, net of unamortized deferred loan fees and discounts	$ 1,505,737	$ 128,393	$ 6,044	$ 46,878	$ 1,687,052

Allowance for loan losses	$ (31,075)	$ (3,185)	$ (382)	$ (3,680)	$ (38,322)

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Note 4 Loans (continued)

A summary of loan balances follows (in thousands):

	December 31, 2013				
	Originated	PNCI	PCI - Cash basis	PCI - Other	Total
Mortgage loans on real estate:					
Residential 1-4 family	$ 129,882	$ 60,475		$ 4,656	$ 195,013
Commercial	824,912	57,678		30,260	912,850
Total mortgage loan on real estate	954,794	118,153		34,916	1,107,863
Consumer:					
Home equity lines of credit	316,207	13,576	$ 6,200	3,883	339,866
Home equity loans	13,849	253		486	14,588
Auto Indirect	946				946
Other	25,608	2,074		81	27,763
Total consumer loans	356,610	15,903	6,200	4,450	383,163
Commercial	124,650	693	19	6,516	131,878
Construction:					
Residential	30,367			1,566	31,933
Commercial	17,125			45	17,170
Total construction	47,492			1,611	49,103
Total loans, net of deferred loan fees and discounts	$ 1,483,546	$ 134,749	$ 6,219	$ 47,493	$ 1,672,007
Total principal balance of loans owed, net of charge-offs	$ 1,487,240	$ 142,786	$ 16,475	$ 56,879	$ 1,703,380
Unamortized net deferred loan fees	(3,694)				(3,694)
Discounts to principal balance of loans owed, net of charge-offs		(8,037)	(10,256)	(9,386)	(27,679)
Total loans, net of unamortized deferred loan fees and discounts	$ 1,483,546	$ 134,749	$ 6,219	$ 47,493	$ 1,672,007
Noncovered loans	$ 1,483,546	$ 134,749	$ 6,219	$ 19,581	$ 1,644,095
Covered loans				27,912	27,912
	$ 1,483,546	$ 134,749	$ 6,219	$ 47,493	$ 1,672,007

Total loans, net of unamortized deferred loan fees and discounts					
Allowance for loan losses	$ (31,354)	$ (2,850)	$ (385)	$ (3,656)	$ (38,245)

The following is a summary of the change in accretable yield for PCI other loans during the periods indicated (in thousands):

	Three months ended March 31, 2014	2013
Change in accretable yield:		
Balance at beginning of period	$ 18,232	$ 22,337
Accretion to interest income	(1,631)	(1,623)
Reclassification (to) from nonaccretable difference	837	(23)
Balance at end of period	$ 17,438	$ 20,691

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Note 5 Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses, and ending balance of loans, net of unearned fees for the periods indicated.

Allowance for Loan Losses Three Months Ended March 31, 2014										
	RE Mortgage		Home Equity					Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	Total
Beginning balance	$ 3,154	$ 9,700	$ 16,375	$ 1,208	$ 66	$ 589	$ 4,331	$ 1,559	$ 1,263	$ 38,245
Charge-offs	(135)	(13)	(178)			(127)	(239)	(4)	(69)	(765)
Recoveries		172	329	2	12	183	873	511	115	2,197
(Benefit) provision	(39)	16	(160)	81	(33)	(55)	(829)	(565)	229	(1,355)
Ending balance	$ 2,980	$ 9,875	$ 16,366	$ 1,291	$ 45	$ 590	$ 4,136	$ 1,501	$ 1,538	$ 38,322
Ending balance:										
Individ. evaluated for impairment	$ 666	$ 968	$ 1,394	$ 178	$ 1	$ 4	$ 626	$ 104		$ 3,941
Loans pooled for evaluation	$ 1,962	$ 8,129	$ 14,489	$ 1,113	$ 44	$ 586	$ 2,194	$ 769	$ 1,033	$ 30,319
Loans acquired with deteriorated credit quality	$ 352	$ 778	$ 484				$ 1,316	$ 627	$ 505	$ 4,062

Loans, net of unearned fees As of March 31, 2014										
	RE Mortgage		Home Equity					Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	Total

Ending balance:										
Total loans	$ 195,826	$ 930,472	$ 337,802	$ 15,776	$ 575	$ 27,633	$ 119,418	$ 37,394	$ 22,156	$ 1,687,052
Individ. evaluated for impairment	$ 7,322	$ 59,613	$ 7,091	$ 774	$ 49	$ 101	$ 2,537	$ 2,793	$ 19	$ 80,299
Loans pooled for evaluation	$ 184,002	$ 840,642	$ 320,846	$ 14,522	$ 526	$ 27,457	$ 110,602	$ 33,153	$ 22,081	$ 1,553,831
Loans acquired with deteriorated credit quality	$ 4,502	$ 30,217	$ 9,865	$ 480		$ 75	$ 6,279	$ 1,448	$ 56	$ 52,922

Allowance for Loan Losses - Year Ended December 31, 2013

(in thousands)	RE Mortgage Resid.	RE Mortgage Comm.	Home Equity Lines	Home Equity Loans	Auto Indirect	Other Consum.	C&I	Construction Resid.	Construction Comm.	Total
Beginning balance	$ 3,523	$ 8,782	$ 21,367	$ 1,155	$ 243	$ 696	$ 4,703	$ 1,400	$ 779	$ 42,648
Charge-offs	(46)	(2,038)	(2,651)	(94)	(68)	(887)	(1,599)	(20)	(140)	(7,543)
Recoveries	345	994	1,053	41	195	759	340	63	65	3,855
(Benefit) provision	(668)	1,962	(3,394)	106	(304)	21	887	116	559	(715)
Ending balance	$ 3,154	$ 9,700	$ 16,375	$ 1,208	$ 66	$ 589	$ 4,331	$ 1,559	$ 1,263	$ 38,245
Ending balance:										
Individ. evaluated for impairment	$ 775	$ 1,198	$ 1,140	$ 169	$ 1	$ 8	$ 585	$ 91	$ 8	$ 3,975
Loans pooled for evaluation	$ 2,039	$ 7,815	$ 14,749	$ 1,039	$ 65	$ 581	$ 2,402	$ 751	$ 789	$ 30,230
Loans acquired with	$ 340	$ 687	$ 486				$ 1,344	$ 717	$ 466	$ 4,040

deteriorated credit quality

Loans, net of unearned fees As of December 31, 2013

(in thousands)	RE Mortgage Resid.	RE Mortgage Comm.	Home Equity Lines	Home Equity Loans	Auto Indirect	Other Consum.	C&I	Construction Resid.	Construction Comm.	Total
Ending balance:										
Total loans	$ 195,013	$ 912,850	$ 339,866	$ 14,588	$ 946	$ 27,763	$ 131,878	$ 31,933	$ 17,170	$ 1,672,007
Individ. evaluated for impairment	$ 7,342	$ 59,936	$ 6,918	$ 778	$ 60	$ 90	$ 3,177	$ 2,756	$ 178	$ 81,235
Loans pooled for evaluation	$ 183,015	$ 822,654	$ 322,865	$ 13,324	$ 886	$ 27,592	$ 122,166	$ 27,611	$ 16,947	$ 1,537,060
Loans acquired with deteriorated credit quality	$ 4,656	$ 30,260	$ 10,083	$ 486		$ 81	$ 6,535	$ 1,566	$ 45	$ 53,712

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Note 5 Allowance for Loan Losses (continued)

Allowance for Loan Losses Three Months Ended March 31, 2013

	RE Mortgage		Home Equity						Construction	
)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	
	$ 3,523	$ 8,782	$ 21,367	$ 1,155	$ 243	$ 696	$ 4,703	$ 1,400	$ 779	$
fs	(7)	(803)	(766)	(26)	(25)	(273)	(790)	(20)	(61)	
s		353	290	9	85	224	70	61	6	
	(173)	1,078	(1,568)	(1)	(155)	(84)	252	(105)	(352)	
	$ 3,343	$ 9,410	$ 19,323	$ 1,137	$ 148	$ 563	$ 4,235	$ 1,336	$ 372	$
nt	$ 479	$ 1,804	$ 1,613	$ 50	$ 7	$ 8	$ 823	$ 219	$ 42	$
.	$ 2,498	$ 7,326	$ 16,496	$ 1,006	$ 141	$ 555	$ 1,935	$ 438	$ 125	$
ed	$ 366	$ 280	$ 1,214	$ 81			$ 1,477	$ 679	$ 205	$

Loans, net of unearned fees As of March 31, 2013

	RE Mortgage		Home Equity						Construction	
s)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	T
ns	$ 135,960	$ 874,289	$ 333,044	$ 13,083	$ 2,821	$ 27,115	$ 115,483	$ 19,521	$ 11,046	$ 1,

l ent	$ 6,238	$ 64,812	$ 8,721	$ 576	$ 176	$ 97	$ 5,867	$ 3,410	$ 343	$
or n	$ 124,712	$ 777,466	$ 311,258	$ 12,304	$ 2,645	$ 26,993	$ 101,187	$ 11,088	$ 9,566	$ 1,
ted	$ 5,010	$ 32,011	$ 13,065	$ 203		$ 25	$ 8,429	$ 5,023	$ 1,137	$

As part of the on-going monitoring of the credit quality of the Company s loan portfolio, management tracks certain credit quality indicators including, but not limited to, trends relating to (i) the level of criticized and classified loans, (ii) net charge-offs, (iii) non-performing loans, and (iv) delinquency within the portfolio.

The Company utilizes a risk grading system to assign a risk grade to each of its loans. Loans are graded on a scale ranging from Pass to Loss. A description of the general characteristics of the risk grades is as follows:

Pass This grade represents loans ranging from acceptable to very little or no credit risk. These loans typically meet most if not all policy standards in regard to: loan amount as a percentage of collateral value, debt service coverage, profitability, leverage, and working capital.

Special Mention This grade represents Other Assets Especially Mentioned in accordance with regulatory guidelines and includes loans that display some potential weaknesses which, if left unaddressed, may result in deterioration of the repayment prospects for the asset or may inadequately protect the Company s position in the future. These loans warrant more than normal supervision and attention.

Substandard This grade represents Substandard loans in accordance with regulatory guidelines. Loans within this rating typically exhibit weaknesses that are well defined to the point that repayment is jeopardized. Loss potential is, however, not necessarily evident. The underlying collateral supporting the credit appears to have sufficient value to protect the Company from loss of principal and accrued interest, or the loan has been written down to the point where this is true. There is a definite need for a well defined workout/rehabilitation program.

Doubtful This grade represents Doubtful loans in accordance with regulatory guidelines. An asset classified as Doubtful has all the weaknesses inherent in a loan classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and financing plans.

Loss This grade represents Loss loans in accordance with regulatory guidelines. A loan classified as Loss is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan, even though some recovery may be affected in the future. The portion of the loan that is graded loss should be charged off no later than the end of the quarter in which the loss is identified.

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Note 5 Allowance for Loan Losses (continued)

The following tables present ending loan balances by loan category and risk grade for the periods indicated:

Credit Quality Indicators As of March 31, 2014

	RE Mortgage		Home Equity					Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	Total
Originated loans:										
Pass	$ 125,171	$ 788,428	$ 300,335	$ 13,446	$ 420	$ 24,743	$ 110,043	$ 31,427	$ 21,908	$ 1,415,921
Special mention	1,379	15,186	4,502	457	78	667	794	95	143	23,301
Substandard	8,074	40,844	9,995	1,128	77	243	1,681	4,424	49	66,515
Loss										
Total originated	$ 134,624	$ 844,458	$ 314,832	$ 15,031	$ 575	$ 25,653	$ 112,518	$ 35,946	$ 22,100	$ 1,505,737
PNCI loans:										
Pass	$ 56,096	$ 46,937	$ 12,039	$ 155		$ 1,869	$ 319			$ 117,415
Special mention		5,821	334			2	302			6,459
Substandard	604	3,039	732	110		34				4,519
Loss										
Total PNCI	$ 56,700	$ 55,797	$ 13,105	$ 265		$ 1,905	$ 621			$ 128,393
PCI loans	$ 4,502	$ 30,217	$ 9,865	$ 480		$ 75	$ 6,279	$ 1,448	$ 56	$ 52,922
Total loans	$ 195,826	$ 930,472	$ 337,802	$ 15,776	$ 575	$ 27,633	$ 119,418	$ 37,394	$ 22,156	$ 1,687,052

Credit Quality Indicators As of December 31, 2013

	RE Mortgage		Home Equity					Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	Total
Originated loans:										
Pass	$ 121,969	$ 768,596	$ 203,232	$ 12,284	$ 717	$ 24,653	$ 121,580	$ 25,836	$ 16,571	$ 1,394,438
Special mention	1,265	15,862	4,529	504	118	756	938	96	343	24,411
Substandard	6,648	40,454	9,446	1,061	111	196	2,122	4,435	211	64,684

Loss						3	10			13
Total originated	$ 129,882	$ 824,912	$ 316,207	$ 13,849	$ 946	$ 25,608	$ 124,650	$ 30,367	$ 17,125	$ 1,483,546
PNCI loans:										
Pass	$ 59,798	$ 48,548	$ 12,716	$ 253		$ 2,020	$ 380			$ 123,715
Special mention		5,810	195			18	313			6,336
Substandard	677	3,320	665			36				4,698
Loss										
Total PNCI	$ 60,475	$ 57,678	$ 13,576	$ 253		$ 2,074	$ 693			$ 134,749
PCI loans	$ 4,656	$ 30,260	$ 10,083	$ 486		$ 81	$ 6,535	$ 1,566	$ 45	$ 53,712
Total loans	$ 195,013	$ 912,850	$ 339,866	$ 14,588	$ 946	$ 27,763	$ 131,878	$ 31,933	$ 17,170	$ 1,672,007

Consumer loans, whether unsecured or secured by real estate, automobiles, or other personal property, are susceptible to three primary risks; non-payment due to income loss, over-extension of credit and, when the borrower is unable to pay, shortfall in collateral value. Typically non-payment is due to loss of job and will follow general economic trends in the marketplace driven primarily by rises in the unemployment rate. Loss of collateral value can be due to market demand shifts, damage to collateral itself or a combination of the two.

Problem consumer loans are generally identified by payment history of the borrower (delinquency). The Bank manages its consumer loan portfolios by monitoring delinquency and contacting borrowers to encourage repayment, suggest modifications if appropriate, and, when continued scheduled payments become unrealistic, initiate repossession or foreclosure through appropriate channels. Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, public value information (blue book values for autos), sales invoices, or other appropriate means. Appropriate valuations are obtained at initiation of the credit and periodically (every 3-12 months depending on collateral type) once repayment is questionable and the loan has been classified.

Commercial real estate loans generally fall into two categories, owner-occupied and non-owner occupied. Loans secured by owner occupied real estate are primarily susceptible to changes in the business conditions of the related business. This may be driven by, among other things, industry changes, geographic business changes, changes in the individual fortunes of the business owner, and general economic conditions and changes in business cycles. These same risks apply to commercial loans whether secured by equipment or other personal property or unsecured. Losses on loans secured by owner occupied real estate, equipment, or other personal property generally are dictated by the value of underlying collateral at the time of default and liquidation of the collateral. When default is driven by issues related specifically to the business owner, collateral values tend to provide better repayment support and may result in little or no loss. Alternatively, when default is driven by more general economic conditions, underlying collateral generally has devalued more and results in larger losses due to default. Loans secured by non-owner occupied real estate are primarily susceptible to risks associated with swings in occupancy or vacancy and related shifts in lease rates, rental rates or room rates. Most often these shifts are a result of changes in general economic or market conditions or overbuilding and resultant over-supply. Losses are dependent on value of underlying collateral at the time of default. Values are generally driven by these same factors and influenced by interest rates and required rates of return as well as changes in occupancy costs.

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Note 5 Allowance for Loan Losses (continued)

Construction loans, whether owner occupied or non-owner occupied commercial real estate loans or residential development loans, are not only susceptible to the related risks described above but the added risks of construction itself including cost over-runs, mismanagement of the project, or lack of demand or market changes experienced at time of completion. Again, losses are primarily related to underlying collateral value and changes therein as described above.

Problem C&I loans are generally identified by periodic review of financial information which may include financial statements, tax returns, rent rolls and payment history of the borrower (delinquency). Based on this information the Bank may decide to take any of several courses of action including demand for repayment, additional collateral or guarantors, and, when repayment becomes unlikely through borrower s income and cash flow, repossession or foreclosure of the underlying collateral.

Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, public value information (blue book values for autos), sales invoices, or other appropriate means. Appropriate valuations are obtained at initiation of the credit and periodically (every 3-12 months depending on collateral type) once repayment is questionable and the loan has been classified.

Once a loan becomes delinquent and repayment becomes questionable, a Bank collection officer will address collateral shortfalls with the borrower and attempt to obtain additional collateral. If this is not forthcoming and payment in full is unlikely, the Bank will estimate its probable loss, using a recent valuation as appropriate to the underlying collateral less estimated costs of sale, and charge the loan down to the estimated net realizable amount. Depending on the length of time until ultimate collection, the Bank may revalue the underlying collateral and take additional charge-offs as warranted. Revaluations may occur as often as every 3-12 months depending on the underlying collateral and volatility of values. Final charge-offs or recoveries are taken when collateral is liquidated and actual loss is known. Unpaid balances on loans after or during collection and liquidation may also be pursued through lawsuit and attachment of wages or judgment liens on borrower s other assets.

The following table shows the ending balance of current, past due, and nonaccrual originated loans by loan category as of the date indicated:

Analysis of Past Due and Nonaccrual Originated Loans As of March 31, 2014

	RE Mortgage		Home Equity					Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	Total
Originated loan balance:										
Past due:										
30-59 Days	$ 2,003	$ 2,496	$ 1,243	$ 341	$ 5	$ 55	$ 1,328		$ 5,688	$ 13,159
60-89 Days	314	27	810	76		11	115			1,353
> 90 Days	383	3,771	1,234	192	27	25	340	13		5,985

Total past due	$ 2,700	$ 6,294	$ 3,287	$ 609	$ 32	$ 91	$ 1,783	$ 13	$ 5,688	$ 20,497
Current	131,924	838,164	311,545	14,422	543	25,562	110,735	35,933	16,412	1,485,240
Total orig. loans	$ 134,624	$ 844,458	$ 314,832	$ 15,031	$ 575	$ 25,653	$ 112,518	$ 35,946	$ 22,100	$ 1,505,737
> 90 Days and still accruing										
Nonaccrual loans	$ 4,533	$ 30,773	$ 4,912	$ 716	$ 44	$ 38	$ 789	$ 2,510	$ 19	$ 44,334

The following table shows the ending balance of current, past due, and nonaccrual PNCI loans by loan category as of the date indicated:

Analysis of Past Due and Nonaccrual PNCI Loans As of March 31, 2014

	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
PNCI loan balance:										
Past due:										
30-59 Days			$ 37			$ 35				$ 72
60-89 Days										
> 90 Days		$ 352								352
Total past due		$ 352	$ 37			$ 35				$ 424
Current	$ 56,700	55,445	13,068	$ 265		1,870	$ 621			127,969
Total PNCI loans	$ 56,700	$ 55,797	$ 13,105	$ 265		$ 1,905	$ 621			$ 128,393
> 90 Days and still accruing										
Nonaccrual loans	$ 195	$ 870	$ 491			$ 34				$ 1,590

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Note 5 Allowance for Loan Losses (continued)

The following table shows the ending balance of current, past due, and nonaccrual originated loans by loan category as of the date indicated:

	Analysis of Past Due and Nonaccrual Originated Loans						As of December 31, 2013			
	RE Mortgage		Home Equity					Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	Total
Originated loan balance:										
Past due:										
30-59 Days	$ 2,272	$ 2,304	$ 3,121	$ 264	$ 24	$ 40	$ 296			$ 8,321
60-89 Days	284		1,070	16	1	16	76		$ 198	1,661
> 90 Days	447	2,213	1,050	312	33	7	749	13		4,824
Total past due	$ 3,003	$ 4,517	$ 5,241	$ 592	$ 58	$ 63	$ 1,121	$ 13	$ 198	$ 14,806
Current	126,879	820,395	310,966	13,257	888	25,545	123,529	30,354	16,927	1,468,740
Total orig. loans	$ 129,882	$ 824,912	$ 316,207	$ 13,849	$ 946	25,608	$ 124,650	$ 30,367	$ 17,125	$ 1,483,546
> 90 Days and still accruing										
Nonaccrual loans	$ 4,697	$ 30,732	$ 4,972	$ 719	$ 54	$ 26	$ 1,280	$ 2,473	$ 178	$ 45,131

The following table shows the ending balance of current, past due, and nonaccrual PNCI loans by loan category as of the date indicated:

	Analysis of Past Due and Nonaccrual PNCI Loans						As of December 31, 2013			
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
PNCI loan balance:										
Past due:										
30-59 Days	$ 799	$ 512	$ 313			$ 49				$ 1,673
60-89 Days		352	38							390
> 90 Days		217								217

Total past due	$ 799	$ 1,081	$ 351			$ 49			$ 2,280
Current	59,676	56,597	13,225	$ 253		2,025	$ 693		132,469
Total PNCI loans	$ 60,475	$ 57,678	$ 13,576	$ 253		$ 2,074	$ 693		$ 134,749
> 90 Days and still accruing									
Nonaccrual loans	$ 262	$ 1,139	$ 429			$ 36			$ 1,866

Impaired originated loans are those where management has concluded that it is probable that the borrower will be unable to pay all amounts due under the contractual terms. The following tables show the recorded investment (financial statement balance), unpaid principal balance, average recorded investment, and interest income recognized for impaired Originated and PNCI loans, segregated by those with no related allowance recorded and those with an allowance recorded for the periods indicated.

	Impaired Originated Loans			As of, or for the Three Months Ended, March 31, 2014						
	RE Mortgage		Home Equity					Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$ 4,349	$ 53,996	$ 3,386	$ 541	$ 45	$ 32	$ 1,105	$ 87	$ 19	$ 63,560
Unpaid principal	$ 6,532	$ 59,159	$ 6,833	$ 921	$ 82	$ 37	$ 1,120	$ 225	$ 101	$ 75,010
Average recorded Investment	$ 4,206	$ 57,403	$ 3,972	$ 483	$ 66	$ 21	$ 1,370	$ 1,415	$ 39	$ 68,975
Interest income Recognized	$ 14	$ 340	$ 2				$ 15			$ 371
With an allowance recorded:										
Recorded investment	$ 2,457	$ 4,599	$ 3,214	$ 234	$ 4	$ 5	$ 1,421	$ 2,707		$ 14,641
Unpaid principal	$ 2,528	$ 5,240	$ 3,449	$ 300	$ 5	$ 6	$ 1,509	$ 6,773		$ 19,810

Related allowance	$ 502	$ 855	$ 1,228	$ 178	$ 1	$ 1	$ 626	$ 104		$ 3,495
Average recorded Investment	$ 2,353	$ 5,773	$ 3,057	$ 170	$ 7	$ 7	$ 1,766	$ 1,497	$ 151	$ 14,781
Interest income Recognized	$ 13	$ 25	$ 14	$ 1			$ 13	$ 5		$ 71

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Note 5 Allowance for Loan Losses (continued)

Impaired PNCI Loans	As of, or for the Three Months Ended, March 31, 2014									
	RE Mortgage		Home Equity					Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$ 84	$ 870	$ 326			$ 34	$ 11			$ 1,325
Unpaid principal	$ 84	$ 3,044	$ 336			$ 45	$ 11			$ 3,520
Average recorded Investment	$ 58	$ 905	$ 339			$ 37	$ 9			$ 1,348
Interest income Recognized	$ 2		$ 6							$ 8
With an allowance recorded:										
Recorded investment	$ 432	$ 148	$ 166			$ 28				$ 774
Unpaid principal	$ 443	$ 149	$ 172			$ 28				$ 792
Related allowance	$ 164	$ 113	$ 166			$ 3				$ 446
Average recorded Investment	$ 334	$ 157	$ 195			$ 28				$ 714
Interest income Recognized	$ 2	$ 2								$ 4

Impaired Originated Loans As of, or for the Year Ended, December 31, 2013

	RE Mortgage		Home Equity					Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$ 4,366	$ 53,352	$ 3,710	$ 552	$ 55	$ 16	$ 1,648	$ 2,473	$ 69	$ 66,241
Unpaid principal	$ 6,489	$ 58,894	$ 7,299	$ 1,249	$ 123	$ 21	$ 1,665	$ 6,611	$ 138	$ 82,489
Average recorded Investment	$ 4,123	$ 58,205	$ 4,410	$ 463	$ 93	$ 18	$ 2,154	$ 1,567	$ 83	$ 71,116
Interest income Recognized	$ 74	$ 1,154	$ 25	$ 1	$ 2		$ 101			$ 1,758
With an allowance recorded:										
Recorded investment	$ 2,630	$ 5,296	$ 2,779	$ 226	$ 4	$ 10	$ 1,517	$ 284	$ 109	$ 12,855
Unpaid principal	$ 2,689	$ 5,659	$ 3,053	$ 291	$ 6	$ 10	$ 1,616	$ 284	$ 288	$ 13,896
Related allowance	$ 648	$ 1,084	$ 968	$ 169	$ 1	$ 5	$ 585	$ 91	$ 7	$ 3,558
Average recorded Investment	$ 2,245	$ 6,077	$ 3,064	$ 141	$ 12	$ 7	$ 1,817	$ 1,499	$ 188	$ 15,050
Interest income Recognized	$ 85	$ 168	$ 86	$ 5		$ 1	$ 63	$ 19		$ 427

Impaired PNCI Loans As of, or for the Year Ended, December 31, 2013

	RE Mortgage	Home Equity	C&I	Construction	Total

(in thousands)	Resid.	Comm.	Lines	Loans	Auto Indirect	Other Consum.		Resid.	Comm.	
With no related allowance recorded:										
Recorded investment	$ 148	$ 1,139	$ 227			$ 36	$ 12			$ 1,562
Unpaid principal	$ 158	$ 3,323	$ 287			$ 45	$ 12			$ 3,825
Average recorded Investment	$ 37	$ 1,005	$ 333			$ 39	$ 7			$ 1,421
Interest income Recognized	$ 6	$ 32					$ 1			$ 39
With an allowance recorded:										
Recorded investment	$ 198	$ 149	$ 203			$ 28				$ 578
Unpaid principal	$ 207	$ 149	$ 215			$ 28				$ 599
Related allowance	$ 128	$ 114	$ 172			$ 3				$ 417
Average recorded Investment	$ 275	$ 250	$ 162			$ 29				$ 716
Interest income Recognized	$ 3	$ 9	$ 3			$ 1				$ 16

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Note 5 Allowance for Loan Losses (continued)

Impaired Originated Loans	As of, or for the Three Months Ended, March 31, 2013									
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment	$ 4,017	$ 57,206	$ 5,138	$ 460	$ 151	$ 23	$ 4,240	$ 696	$ 195	$ 72,126
Unpaid principal	$ 6,192	$ 62,263	$ 8,437	$ 1,110	$ 292	$ 40	$ 5,392	$ 1,442	$ 426	$ 85,594
Average recorded Investment	$ 3,769	$ 61,619	$ 4,690	$ 411	$ 157	$ 21	$ 4,239	$ 2,125	$ 240	$ 77,271
Interest income Recognized	$ 7	$ 362	$ 5		$ 1		$ 11			$ 386
With an allowance recorded:										
Recorded investment	$ 2,025	$ 5,816	$ 3,244	$ 116	$ 25	$ 4	$ 1,626	$ 2,713	$ 149	$ 15,718
Unpaid principal	$ 2,252	$ 6,095	$ 4,086	$ 166	$ 32	$ 4	$ 1,680	$ 6,680	$ 181	$ 21,176
Related allowance	$ 447	$ 1,296	$ 1,576	$ 50	$ 7	$ 4	$ 823	$ 219	$ 42	$ 4,464
Average recorded Investment	$ 2,446	$ 4,537	$ 4,328	$ 142	$ 30	$ 17	$ 2,975	$ 1,378	$ 236	$ 16,089
Interest income Recognized	$ 15	$ 47	$ 16	$ 1			$ 19	$ 5	$ 1	$ 104

Impaired PNCI Loans	As of, or for the Three Months Ended, March 31, 2013									
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
With no related allowance recorded:										
Recorded investment		$ 1,271	$ 302			$ 41				$ 1,614

Unpaid principal		$ 3,300	$ 343	$ 46	$ 3,689
Average recorded Investment		$ 1,370	$ 334	$ 21	$ 1,725
Interest income Recognized		$ 4			$ 4
With an allowance recorded:					
Recorded investment	$ 197	$ 519	$ 37	$ 29	$ 782
Unpaid principal	$ 224	$ 519	$ 41	$ 29	$ 813
Related allowance	$ 32	$ 508	$ 37	$ 4	$ 581
Average recorded Investment	$ 198	$ 420	$ 38	$ 51	$ 707
Interest income Recognized	$ 1	$ 7		$ 1	$ 9

At March 31, 2014, $56,179,000 of Originated loans were TDRs and classified as impaired. The Company had obligations to lend $1,000 of additional funds on these TDRs as of March 31, 2014. At March 31, 2014, $1,179,000 of PNCI loans were TDRs and classified as impaired. The Company had no obligations to lend additional funds on these TDRs as of March 31,2014.

At December 31, 2013, $56,739,000 of Originated loans were TDRs and classified as impaired. The Company had obligations to lend $25,000 of additional funds on these TDRs as of December 31, 2013. At December 31, 2013, $901,000 of PNCI loans were TDRs and classified as impaired. The Company had no obligations to lend additional funds on these TDRs as of December 31, 2013.

At March 31, 2013, $51,458,000 of Originated loans were TDR and classified as impaired. The Company had obligations to lend $92,000 of additional funds on these TDR as of March 31, 2013. At March 31, 2013, $954,000 of PNCI loans were TDR and classified as impaired. The Company had no obligations to lend additional funds on these TDR as of March 31, 2013.

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Note 5 Allowance for Loan Losses (continued)

The following tables show certain information regarding TDRs that occurred during the periods indicated:

	TDR Information for the Three Months Ended March 31, 2014									
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Number	2	2	2				1	1	1	9
Pre-mod outstanding principal balance	$ 695	$ 256	$ 279				$ 38	$ 102	$ 118	$ 1,488
Post-mod outstanding principal balance	$ 695	$ 259	$ 279				$ 38	$ 85	$ 100	$ 1,456
Financial impact due to TDR taken as additional provision	$ 37	$ 9					$ 18			$ 64
Number that defaulted during the period		1					1			2
Recorded investment of TDRs that defaulted during the period		$ 260					$ 116			$ 376
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions							$ (8)			$ (8)

The following tables show certain information regarding Troubled Debt Restructurings (TDRs) that occurred during the periods indicated:

	TDR Information for the Three Months Ended March 31, 2013									
	RE Mortgage		Home Equity		Auto	Other		Construction		
(in thousands)	Resid.	Comm.	Lines	Loans	Indirect	Consum.	C&I	Resid.	Comm.	Total
Number			3							3
Pre-mod outstanding principal balance			$ 257							$ 257
Post-mod outstanding principal balance			$ 260							$ 260
Financial impact due to TDR taken as additional provision										
Number that defaulted during the period										
Recorded investment of TDRs that defaulted during the period										
Financial impact due to the default of previous TDR taken as charge-offs or additional provisions										

Modifications classified as TDR can include one or a combination of the following: rate modifications, term extensions, interest only modifications, either temporary or long-term, payment modifications, and collateral substitutions/additions.

For all new TDR, an impairment analysis is conducted. If the loan is determined to be collateral dependent, any additional amount of impairment will be calculated based on the difference between estimated collectible value and the current carrying balance of the loan. This difference could result in an increased provision and is typically charged off. If the asset is determined not to be collateral dependent, the impairment is measured on the net present value difference between the expected cash flows of the restructured loan and the cash flows which would have been received under the original terms. The effect of this could result in a requirement for additional provision to the reserve. The effect of these required provisions for the period are indicated above.

Typically if a TDR defaults during the period, the loan is then considered collateral dependent and, if it was not already considered collateral dependent, an appropriate provision will be reserved or charge will be taken. The additional provisions required resulting from default of previously modified TDR s are noted above.

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Note 6 Foreclosed Assets

A summary of the activity in the balance of foreclosed assets follows (in thousands):

	Three months ended March 31, 2014			Three months ended March 31, 2013		
	Noncovered	Covered	Total	Noncovered	Covered	Total
Beginning balance, net	$ 5,588	$ 674	$ 6,262	$ 5,957	$ 1,541	$ 7,498
Additions/transfers from loans	1,175		1,175	5,473	263	5,736
Dispositions/sales	(4,186)		(4,186)	(6,816)	(267)	(7,083)
Valuation adjustments	(26)	(10)	(36)	(27)		(27)
Ending balance, net	$ 2,551	$ 664	$ 3,215	$ 4,587	$ 1,537	$ 6,124
Ending valuation allowance	$ 111	$ 10	$ 121	$ 984	$ 488	$ 1,472
Ending number of foreclosed assets	22	4	26	33	4	37
Proceeds from sale of foreclosed assets	$ 5,413		$ 5,413	$ 7,354	$ 280	$ 7,635
Gain on sale of foreclosed assets	$ 1,227		1,227	$ 538	$ 13	$ 551

Note 7 - Premises and Equipment

Premises and equipment were comprised of:

	March 31, 2014	December 31, 2013
	(In thousands)	
Land & land improvements	$ 5,990	$ 5,975
Buildings	30,291	30,103
Furniture and equipment	28,838	27,881
	65,119	63,959
Less: Accumulated depreciation	(33,168)	(32,397)
	31,951	31,562
Construction in progress	53	50
Total premises and equipment	$ 32,004	$ 31,612

Depreciation expense for premises and equipment amounted to $1,180,000 and $741,000 for the three months ended March 31, 2014 and 2013, respectively.

Note 8 Cash Value of Life Insurance

A summary of the activity in the balance of cash value of life insurance follows (in thousands):

	Three months ended March 31,	
	2014	2013
Beginning balance	$ 52,309	$ 50,582
Increase in cash value of life insurance	397	427
Ending balance	$ 52,706	$ 51,009
End of period death benefit	$ 94,999	$ 95,513
Number of policies owned	133	133
Insurance companies used	6	6
Current and former employees and directors covered	36	36

As of March 31, 2014, the Bank was the owner and beneficiary of 133 life insurance policies, issued by six life insurance companies, covering 36 current and former employees and directors. These life insurance policies are recorded on the Company s financial statements at their reported cash (surrender) values. As a result of current tax law and the nature of these policies, the Bank records any increase in cash value of these policies as nontaxable noninterest income. If the Bank decided to surrender any of the policies prior to the death of the insured, such surrender may result in a tax expense related to the life-to-date cumulative increase in cash value of the policy. If the Bank retains such policies until the death of the insured, the Bank would receive nontaxable proceeds from the insurance company equal to the death benefit of the policies. The Bank has entered into Joint Beneficiary Agreements (JBAs) with certain of the insured that for certain of the policies provide some level of sharing of the death benefit, less the cash surrender value, among the Bank and the beneficiaries of the insured upon the receipt of death benefits. See Note 15 of these condensed consolidated financial statements for additional information on JBAs.

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Note 9 - Goodwill and Other Intangible Assets

The following table summarizes the Company s goodwill intangible as of December 31, 2013 and 2012.

(Dollar in Thousands)	March 31, 2014	Additions	Reductions	December 31, 2013
Goodwill	$ 15,519			$ 15,519

The following table summarizes the Company s core deposit intangibles as of December 31, 2013 and 2012.

(Dollar in Thousands)	March 31, 2014	Additions	Reductions/ Amortization	Fully Depreciated	December 31, 2013
Core deposit intangibles	$ 1,460				$ 1,460
Accumulated amortization	(629)		$ (52)		(577)
Core deposit intangibles, net	$ 831		$ (52)		$ 883

The Company recorded additions to its core deposit intangibles of $898,000 in conjunction with the Citizens acquisition on September 23, 2011 and $562,000 in conjunction with the Granite acquisition on May 28, 2010. The following table summarizes the Company s estimated core deposit intangible amortization (dollars in thousands):

Years Ended	Estimated Core Deposit Intangible Amortization
2014	$ 209
2015	209
2016	209
2017	209
2018	$ 47
Thereafter	

Note 10 - Mortgage Servicing Rights

The following tables summarize the activity in, and the main assumptions we used to determine the fair value of mortgage servicing rights (MSR,) for the periods indicated (dollars in thousands):

	Three months ended March 31, 2014	2013
Balance at beginning of period	$ 6,165	$ 4,552
Additions	123	493
Change in fair value	(181)	(61)

Balance at end of period	$ 6,107	$ 4,984
Contractually specified servicing fees, late fees and ancillary fees earned	$ 420	$ 417
Balance of loans serviced at:		
Beginning of period	$ 680,197	$ 666,512
End of period	$ 672,341	$ 680,447
Weighted-average prepayment speed (CPR)	10.6%	17.3%
Weighted-average discount rate	10.0%	10.0%

The changes in fair value of MSRs that occurred during the three months ended March 31, 2014 and 2013 were mainly due to changes in principal balances and changes in estimate life of the MSRs.

Note 11 - Indemnification Asset

A summary of the activity in the balance of indemnification asset (included in other assets) follows (in thousands):

	Three months ended March 31,	
	2014	2013
Beginning balance	$ 206	$ 1,997
Effect of actual and estimated future covered losses and recoveries	(468)	(35)
Reimbursable (revenue) expenses incurred	59	(39)
Payments (received from) made to FDIC	(17)	(116)
Ending balance	$ (220)	$ 1,807

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Note 12 Other Assets

Other assets were comprised of (in thousands):

	March 31, 2014	December 31, 2013
Deferred tax asset, net	$ 27,970	$ 26,781
Prepaid expense	2,519	2,131
Software	1,346	1,318
Advanced compensation	1,155	1,175
TriCo Capital Trust I & II	1,238	1,238
Indemnification asset (Note 11)	(220)	206
Miscellaneous other assets	1,049	3,237
Total other assets	$ 35,057	$ 36,086

Note 13 Deposits

A summary of the balances of deposits follows (in thousands):

	March 31 2014	December 31, 2013
Noninterest-bearing demand	$ 728,492	$ 789,458
Interest-bearing demand	554,296	533,351
Savings	856,811	798,986
Time certificates, $100,000 and over	144,733	157,647
Other time certificates	126,788	131,041
Total deposits	$ 2,411,120	$ 2,410,483

Certificate of deposit balances of $5,000,000 from the State of California were included in time certificates, $100,000 and over, each of March 31, 2014 and December 31, 2013. The Bank participates in a deposit program offered by the State of California whereby the State may make deposits at the Bank s request subject to collateral and credit worthiness constraints. The negotiated rates on these State deposits are generally more favorable than other wholesale funding sources available to the Bank. Overdrawn deposit balances of $957,000 and $1,212,000 were classified as consumer loans at March 31, 2014 and December 31, 2013, respectively.

Note 14 Reserve for Unfunded Commitments

The following tables summarize the activity in reserve for unfunded commitments for the periods indicated (dollars in thousands):

	Three months ended, 2014	2013
Balance at beginning of period	$ 2,415	$ 3,615
Provision for losses Unfunded commitments	(185)	(440)
Balance at end of period	$ 2,230	$ 3,175

Note 15 Other Liabilities

Other liabilities were comprised of (in thousands):

	March 31, 2014	December 31, 2013
Deferred compensation	$ 7,351	$ 7,357
Pension liability	14,863	14,634
Joint beneficiary agreements	2,686	2,623
Miscellaneous other liabilities	11,135	7,097
Total other liabilities	$ 36,035	$ 31,711

Note 16 - Other Borrowings

A summary of the balances of other borrowings follows:

	March 31, 2014	December 31, 2013
	(in thousands)	
Other collateralized borrowings, fixed rate, as of March 31, 2014 of 0.05%, payable on April 1, 2014	$ 6,719	$ 6,335
Total other borrowings	$ 6,719	$ 6,335

The Company did not enter into any repurchase agreements during the three months ended March 31, 2014 or the year ended December 31, 2013.

The Company had $6,719,000 and $6,335,000 of other collateralized borrowings at March 31, 2014 and December 31, 2013, respectively. Other collateralized borrowings are generally overnight maturity borrowings from non-financial institutions that are collateralized by securities owned by the Company. As of March 31, 2014, the Company has pledged as collateral and sold under agreements to repurchase investment securities with fair value of $6,719,000 under these other collateralized borrowings.

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The Company maintains a collateralized line of credit with the Federal Home Loan Bank of San Francisco. Based on the FHLB stock requirements at March 31, 2014, this line provided for maximum borrowings of $605,708,000 of which none was outstanding, leaving $605,708,000 available. As of March 31, 2014, the Company has designated loans totaling $1,117,794,000 as potential collateral under this collateralized line of credit with the FHLB.

The Company maintains a collateralized line of credit with the San Francisco Federal Reserve Bank. As of March 31, 2014, this line provided for maximum borrowings of $105,090,000 of which none was outstanding, leaving $105,090,000 available. As of March 31, 2014, the Company has designated investment securities with fair value of $43,000 and loans totaling $140,507,000 as potential collateral under this collateralized line of credit with the San Francisco Federal Reserve Bank.

The Company has available unused correspondent banking lines of credit from commercial banks totaling $10,000,000 for federal funds transactions at March 31, 2014.

Note 17 Junior Subordinated Debt

On July 31, 2003, the Company formed a subsidiary business trust, TriCo Capital Trust I, to issue trust preferred securities. Concurrently with the issuance of the trust preferred securities, the trust issued 619 shares of common stock to the Company for $1,000 per share or an aggregate of $619,000. In addition, the Company issued a Junior Subordinated Debenture to the Trust in the amount of $20,619,000. The terms of the Junior Subordinated Debenture are materially consistent with the terms of the trust preferred securities issued by TriCo Capital Trust I. Also on July 31, 2003, TriCo Capital Trust I completed an offering of 20,000 shares of cumulative trust preferred securities for cash in an aggregate amount of $20,000,000. The trust preferred securities are mandatorily redeemable upon maturity on October 7, 2033 with an interest rate that resets quarterly at three-month LIBOR plus 3.05%. TriCo Capital Trust I has the right to redeem the trust preferred securities on or after October 7, 2008. The trust preferred securities were issued through an underwriting syndicate to which the Company paid underwriting fees of $7.50 per trust preferred security or an aggregate of $150,000. The net proceeds of $19,850,000 were used to finance the opening of new branches, improve bank services and technology, repurchase shares of the Company s common stock under its repurchase plan and increase the Company s capital.

The $20,619,000 of junior subordinated debentures issued by TriCo Capital Trust I are reflected as junior subordinated debt in the consolidated balance sheets. The common stock issued by TriCo Capital Trust I are recorded in other assets in the consolidated balance sheets. As of March 31, 2014, The TriCo Capital Trust I debentures carried an interest rate of 3.29%.

On June 22, 2004, the Company formed a second subsidiary business trust, TriCo Capital Trust II, to issue trust preferred securities. Concurrently with the issuance of the trust preferred securities, the trust issued 619 shares of common stock to the Company for $1,000 per share or an aggregate of $619,000. In addition, the Company issued a Junior Subordinated Debenture to the Trust in the amount of $20,619,000. The terms of the Junior Subordinated Debenture are materially consistent with the terms of the trust preferred securities issued by TriCo Capital Trust II. Also on June 22, 2004, TriCo Capital Trust II completed an offering of 20,000 shares of cumulative trust preferred securities for cash in an aggregate amount of $20,000,000. The trust preferred securities are mandatorily redeemable upon maturity on July 23, 2034 with an interest rate that resets quarterly at three-month LIBOR plus 2.55%. TriCo Capital Trust II has the right to redeem the trust preferred securities on or after July 23, 2009. The trust preferred securities were issued through an underwriting syndicate to which the Company paid underwriting fees of $2.50 per trust preferred security or an aggregate of $50,000. The net proceeds of $19,950,000 were used to finance the opening of new branches, improve bank services and technology, repurchase shares of the Company s common stock under its repurchase plan and increase the Company s capital.

The $20,619,000 of junior subordinated debentures issued by TriCo Capital Trust II are reflected as junior subordinated debt in the consolidated balance sheets. The common stock issued by TriCo Capital Trust II is recorded in other assets in the consolidated balance sheets. As of March 31, 2014, The TriCo Capital Trust II debentures carried an interest rate of 2.79%.

The debentures issued by TriCo Capital Trust I and TriCo Capital Trust II, less the common securities of TriCo Capital Trust I and TriCo Capital Trust II, continue to qualify as Tier 1 or Tier 2 capital under interim guidance issued by the Board of Governors of the Federal Reserve System.

Note 18 - Commitments and Contingencies

Restricted Cash Balances Reserves (in the form of deposits with the San Francisco Federal Reserve Bank) of $41,758,000 and $38,359,000 were maintained to satisfy Federal regulatory requirements at March 31, 2014 and December 31, 2013. These reserves are included in cash and due from banks in the accompanying consolidated balance sheets.

Lease Commitments The Company leases 42 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term. The Company currently does not have any capital leases.

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Note 18 - Commitments and Contingencies (continued)

At December 31, 2013, future minimum commitments under non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

	Operating Leases (in thousands)
2014	$ 2,452
2015	1,706
2016	1,154
2017	791
2018	429
Thereafter	1,235
Future minimum lease payments	$ 7,767

Rent expense under operating leases was $755,000 and $810,000 during the three months ended March 31, 2014 and 2013, respectively. Rent expense was offset by rent income of $54,000 and $54,000 during the three months ended March 31, 2014 and 2013, respectively.

Financial Instruments with Off-Balance-Sheet Risk The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and deposit account overdraft privilege. Those instruments involve, to varying degrees, elements of risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company s exposure to loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company s exposure to loss in the event of nonperformance by the other party to the financial instrument for deposit account overdraft privilege is represented by the overdraft privilege amount disclosed to the deposit account holder.

The following table presents a summary of the Bank s commitments and contingent liabilities:

(in thousands)	March 31, 2014	December 31, 2013
Financial instruments whose amounts represent risk:		
Commitments to extend credit:		
Commercial loans	$ 148,351	$ 136,986

Consumer loans	361,841	360,194
Real estate mortgage loans	37,832	35,309
Real estate construction loans	26,701	22,897
Standby letters of credit	5,312	2,601
Deposit account overdraft privilege	68,121	68,932

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates of one year or less or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on Management s credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, residential properties, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most standby letters of credit are issued for one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral requirements vary, but in general follow the requirements for other loan facilities.

Deposit account overdraft privilege amount represents the unused overdraft privilege balance available to the Company s deposit account holders who have deposit accounts covered by an overdraft privilege. The Company has established an overdraft privilege for certain of its deposit account products whereby all holders of such accounts who bring their accounts to a positive balance at least once every thirty days receive the overdraft privilege. The overdraft privilege allows depositors to overdraft their deposit account up to a predetermined level. The predetermined overdraft limit is set by the Company based on account type.

Legal Proceedings The Bank owns 10,214 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 0.4206 per Class A share. As of March 31, 2014, the value of the Class A shares was $215.86 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Bank was $927,000 as of March 31, 2014, and has not been reflected in the accompanying financial statements. The shares of Visa Class B common stock are restricted and may not be transferred. Visa Member Banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

On September 27, 2012, the Company announced that the Bank entered into a tentative settlement with a former employee who filed a class action lawsuit against the Bank in the Superior Court of California, Kern County on behalf of herself and a putative class of current and former Bank employees serving as assistant branch managers seeking undisclosed damages, alleging that the Bank improperly classified its assistant branch managers as exempt employees under California laws. The lawsuit alleges claims for: failure to pay overtime compensation; failure to provide meal periods; failure to provide rest periods; failure to provide accurate wage statements; failure to provide suitable seating; declaratory relief; accounting; and unfair business practices in violation of California Business and Professions Code section 17200. On September 26, 2012, after efforts to mediate the claim, the Bank and the former employee agreed to settle the case in an amount ranging from $2,039,500 to $2,500,000, depending primarily on the number of class participants who file claims, and pending final approval by the court, including determination of the method to allocate settlement payments among current and former employees who are members of the defined settlement class, and the portion of the total settlement allocable to attorney s fees and costs to plaintiff s counsel. On September 26, 2012, the Bank recorded a $2,090,000 expense and accrued liability in anticipation of approval of this settlement by the court and estimated related payroll taxes. On May 7, 2013, the court preliminarily approved the settlement. On August 27, 2013, the court approved a final settlement agreement for $2,429,000, and the Bank recorded an additional $339,000 expense and accrued liability related to this matter. During September 2013, the Bank paid the settlement amount.

On January 24, 2014, a putative shareholder class action lawsuit was filed against TriCo, North Valley Bancorp and certain other defendants in connection with TriCo entering into the merger agreement with North Valley Bancorp. The lawsuit, which was filed in the Shasta County, California Superior Court, alleges that the members of the North Valley Bancorp board of directors breached their fiduciary duties to North Valley Bancorp shareholders by approving the proposed merger for inadequate consideration; approving the transaction in order receive benefits not equally shared by other North Valley Bancorp shareholders; entering into the merger agreement containing preclusive deal protection devices; and failing to take steps to maximize the value to be paid to the North Valley Bancorp shareholders. The lawsuit alleges claims against TriCo for aiding and abetting these alleged breaches of fiduciary duties. The plaintiff seeks, among other things, declaratory and injunctive relief concerning the alleged breaches of fiduciary duties injunctive relief prohibiting consummation of the merger, rescission, attorneys of the merger agreement, fees and costs, and other and further relief. At this stage, TriCo is unable to predict the outcome of the proceedings or their impact on TriCo or North Valley Bancorp.

Neither the Company nor its subsidiaries, are party to any other material pending legal proceeding, nor is their property the subject of any material pending legal proceeding, except routine legal proceedings arising in the ordinary course of their business. None of these proceedings is expected to have a material adverse impact upon the Company s business, consolidated financial position or results of operations.

Other Commitments and Contingencies The Company has entered into employment agreements or change of control agreements with certain officers of the Company providing severance payments and accelerated vesting of benefits under supplemental retirement agreements to the officers in the event of a change in control of the Company and termination for other than cause or after a substantial and material change in the officer s title, compensation or responsibilities.

Mortgage loans sold to investors may be sold with servicing rights retained, with only the standard legal representations and warranties regarding recourse to the Bank. Management believes that any liabilities that may result from such recourse provisions are not significant.

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Note 19 Shareholders Equity

Dividends Paid

The Bank paid to the Company cash dividends in the aggregate amounts of $2,050,000 and $1,700,000 during the three months ended March 31, 2014 and 2013 respectively. The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the State of California Department of Business Oversight. Absent approval from the Commissioner of the Department of Business Oversight, California banking laws generally limit the Bank s ability to pay dividends to the lesser of (1) retained earnings or (2) net income for the last three fiscal years, less cash distributions paid during such period. Under this law, at December 31, 2013, the Bank may pay dividends of $44,548,000.

Shareholders Rights Plan

On June 25, 2001, the Company announced that its Board of Directors adopted and entered into a Shareholder Rights Plan designed to protect and maximize shareholder value and to assist the Board of Directors in ensuring fair and equitable benefit to all shareholders in the event of a hostile bid to acquire the Company.

The Company adopted this Rights Plan to protect shareholders from coercive or otherwise unfair takeover tactics. In general terms, the Rights Plan imposes a significant penalty upon any person or group that acquires 15% or more of the Company s outstanding common stock without approval of the Company s Board of Directors. The Rights Plan was not adopted in response to any known attempt to acquire control of the Company.

Under the Rights Plan, a dividend of one Preferred Stock Purchase Right was declared for each common share held of record as of the close of business on July 10, 2001. No separate certificates evidencing the Rights will be issued unless and until they become exercisable.

The Rights generally will not become exercisable unless an acquiring entity accumulates or initiates a tender offer to purchase 15% or more of the Company s common stock. In that event, each Right will entitle the holder, other than the unapproved acquirer and its affiliates, to purchase either the Company s common stock or shares in an acquiring entity at one-half of market value.

The Rights initial exercise price, which is subject to adjustment, is $49.00 per Right. The Company s Board of Directors generally will be entitled to redeem the Rights at a redemption price of $.01 per Right until an acquiring entity acquires a 15% position. The Rights were scheduled to expire on July 10, 2011, but on July 8, 2011, the Company extended the expiration date to July 10, 2021.

Stock Repurchase Plan

On August 21, 2007, the Board of Directors adopted a plan to repurchase, as conditions warrant, up to 500,000 shares of the Company s common stock on the open market. The timing of purchases and the exact number of shares to be purchased will depend on market conditions. The 500,000 shares authorized for repurchase under this stock repurchase plan represented approximately 3.2% of the Company s 15,814,662 outstanding common shares as of August 21, 2007. This stock repurchase plan has no expiration date. As of March 31, 2014, the Company had repurchased 166,600 shares under this plan.

Stock Repurchased Under Equity Compensation Plans

During the three months ended March 31, 2014 and 2013, employees tendered 100,385 and 15,647 shares, respectively, of the Company s common stock with market value of $2,482,000, and $262,000, respectively, in lieu of cash to exercise options to purchase shares of the Company s stock and to pay income taxes related to such exercises as permitted by the Company s shareholder-approved equity compensation plans. The tendered shares were retired. The market value of tendered shares is the last market trade price at closing on the day an option is exercised. Stock repurchased under equity incentive plans are included in the total of stock repurchased under the stock repurchase plan announced on August 21, 2007.

Note 20 - Stock Options and Other Equity-Based Incentive Instruments

In March 2009, the Company s Board of Directors adopted the TriCo Bancshares 2009 Equity Incentive Plan (2009 Plan) covering officers, employees, directors of, and consultants to, the Company. The 2009 Plan was approved by the Company s shareholders in May 2009. The 2009 Plan allows for the granting of the following types of stock awards (Awards): incentive stock options, nonstatutory stock options, performance awards, restricted stock, restricted stock unit awards and stock appreciation rights. In May 2013, the Company s shareholders approved an amendment to the 2009 Plan increasing the maximum aggregate number of shares of TriCo s common stock which may be issued pursuant to or subject to Awards from 650,000 to 1,650,000. The number of shares available for issuance under the 2009 Plan is reduced by: (i) one share for each share of common stock issued pursuant to a stock option or a Stock Appreciation Right and (ii) two shares for each share of common stock issued pursuant to a Performance Award, a Restricted Stock Award or a Restricted Stock Unit Award. When Awards made under the 2009 Plan expire or are forfeited or cancelled, the underlying shares will become available for future Awards under the 2009 Plan. To the extent that a share of common stock pursuant to an Award that counted as two shares against the number of shares again becomes available for issuance under the 2009 Plan, the number of shares of common stock available for issuance under the 2009 Plan shall increase by two shares. Shares awarded and delivered under the 2009 Plan may be authorized but unissued, or reacquired shares. As of March 31, 2014, 687,500 options for the purchase of common shares remain outstanding, and 937,500 were available for grant, under the 2009 Plan.

In May 2001, the Company adopted the TriCo Bancshares 2001 Stock Option Plan (2001 Plan) covering officers, employees, directors of, and consultants to, the Company. Under the 2001 Plan, the option exercise price cannot be less than the fair market value of the Common Stock at the date of grant except in the case of substitute options. Options for the 2001 Plan expire on the tenth anniversary of the grant date. Vesting schedules under the 2001 Plan are determined individually for each grant. As of March 31, 2014, 414,850 options for the purchase of common shares were outstanding under the 2001 Plan. As of May 2009, as a result of the shareholder approval of the 2009 Plan, no new options may be granted under the 2001 Plan.

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Stock option activity during the three months ended March 31, 2014 is summarized in the following table:

	Number of Shares	Option Price per Share			Weighted Average Exercise Price	Weighted Average Fair Value on Date of Grant
Outstanding at December 31, 2013	1,246,370	$ 12.63	to	$ 25.91	$ 18.04	
Options granted			to			
Options exercised	(144,020)	$ 14.54	to	$ 20.58	$ 17.35	
Options forfeited			to			
Outstanding at March 31, 2014	1,102,350	$ 12.63	to	$ 25.91	$ 18.13	

The following table shows the number, weighted-average exercise price, intrinsic value, and weighted average remaining contractual life of options exercisable, options not yet exercisable and total options outstanding as of March 31, 2014:

	Currently Exercisable	Currently Not Exercisable	Total Outstanding
Number of options	687,750	414,600	1,102,350
Weighted average exercise price	$ 18.92	$ 16.82	$ 18.13
Intrinsic value (in thousands)	$ 4,819	$ 3,777	$ 8,596
Weighted average remaining contractual term (yrs.)	4.5	8.1	5.9

The 414,600 options that are currently not exercisable as of March 31, 2014 are expected to vest, on a weighted-average basis, over the next 2.8 years, and the Company is expected to recognize $2,285,000 of pre-tax compensation costs related to these options as they vest. The Company did not modify any option grants during 2013 or the three months ended March 31, 2014.

Note 21 - Noninterest Income and Expense

The components of other noninterest income were as follows (in thousands):

	Three months ended March 31, 2014	2013
Service charges on deposit accounts	$ 2,690	$ 3,140
ATM and interchange fees	2,013	1,875
Other service fees	520	559
Mortgage banking service fees	420	416
Change in value of mortgage servicing rights	(181)	(61)
Total service charges and fees	5,462	5,929

Gain on sale of loans	464	2,294
Commissions on sale of non-deposit investment products	771	761
Increase in cash value of life insurance	397	426
Change in indemnification asset	(412)	(101)
Gain on sale of foreclosed assets	1,227	551
Sale of customer checks	101	91
Lease brokerage income	107	117
Loss on disposal of fixed assets	(1)	(16)
Other	179	166
Total other noninterest income	2,833	4,289
Total noninterest income	$ 8,295	$ 10,218

Mortgage loan servicing fees, net of change in fair value of mortgage loan servicing rights, totaling $239,000 and $355,000 were recorded in service charges and fees noninterest income for the three months ended March 31, 2014 and 2013, respectively.

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Note 21 - Noninterest Income and Expense (continued)

The components of noninterest expense were as follows (in thousands):

	Three months ended March 31, 2014	2013
Base salaries, net of deferred loan origination costs	$ 8,866	$ 8,348
Incentive compensation	1,123	1,286
Benefits and other compensation costs	3,314	3,327
Total salaries and benefits expense	13,303	12,961
Occupancy	1,962	1,659
Equipment	1,036	1,034
Data processing and software	1,178	1,078
ATM network charges	643	496
Telecommunications	580	525
Postage	227	231
Courier service	234	167
Advertising	342	325
Assessments	521	606
Operational losses	177	117
Professional fees	739	486
Foreclosed assets expense	158	99
Provision for foreclosed asset losses	36	27
Change in reserve for unfunded commitments	(185)	(440)
Intangible amortization	52	52
Other	2,314	2,178
Total other noninterest expense	10,014	8,640
Total noninterest expense	$ 23,317	$ 21,601

Note 22 - Income Taxes

The provisions for income taxes applicable to income before taxes differ from amounts computed by applying the statutory Federal income tax rates to income before taxes. The effective tax rate and the statutory federal income tax rate are reconciled for the periods indicated as follows:

	Three months ended March 31, 2014	2013

Federal statutory income tax rate	35.0%	35.0%
State income taxes, net of federal tax benefit	6.9	6.8
Tax-exempt interest on municipal obligations	(0.4)	(0.2)
Increase in cash value of insurance policies	(1.1)	(1.0)
Other	0.2	0.1
Effective Tax Rate	40.6%	40.7%

Note 23 Earnings Per Share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from assumed issuance. Potential common shares that may be issued by the Company relate solely from outstanding stock options, and are determined using the treasury stock method. Earnings per share have been computed based on the following:

(In thousands)	Three months ended March 31, 2014	2013
Net income	$ 7,365	$ 8,477
Average number of common shares outstanding	16,097	16,002
Effect of dilutive stock options	225	89
Average number of common shares outstanding used to calculate diluted earnings per share	16,322	16,091
Options excluded from diluted earnings per share because the effect of these options was antidilutive	101	856

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Note 24 Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The components of other comprehensive income and related tax effects are as follows:

	Three Months Ended March 31,	
	2014	2013
(in thousands)		
Unrealized holding (losses) gains on available for sale securities before reclassifications	$ (105)	$ (1,073)
Amounts reclassified out of accumulated other comprehensive income-		
Unrealized holding (losses) gains on available for sale securities after reclassifications	(105)	(1,073)
Tax effect	45	452
Unrealized holding (losses) gains on available for sale securities, net of tax	(60)	(621)
Change in unfunded status of the supplemental retirement plans before reclassifications		
Amounts reclassified out of accumulated other comprehensive income:		
Amortization of prior service cost	5	
Amortization of actuarial losses	4	
Total amounts reclassified out of accumulated other comprehensive income	9	
Change in unfunded status of the supplemental retirement plans after reclassifications	9	
Tax effect	(4)	
Change in unfunded status of the supplemental retirement plans, net of tax	5	
Change in joint beneficiary agreement liability before reclassifications		

Amounts reclassified out of accumulated other comprehensive income		
Change in joint beneficiary agreement liability after reclassifications		
Tax effect		
Change in joint beneficiary agreement liability, net of tax		
Total other comprehensive loss	$ (55)	$ (621)

The components of accumulated other comprehensive income, included in shareholders equity, are as follows:

	March 31, 2014	December 31, 2013
	(in thousands)	
Net unrealized gains on available for sale securities	$ 4,097	$ 4,202
Tax effect	(1,722)	(1,767))
Unrealized holding gains on available for sale securities, net of tax	2,375	2,435
Unfunded status of the supplemental retirement plans	(778)	(787)
Tax effect	327	331
Unfunded status of the supplemental retirement plans, net of tax	(451)	(456)
Joint beneficiary agreement liability	(122)	(122)
Tax effect		
Joint beneficiary agreement liability, net of tax	(122)	(122)
Accumulated other comprehensive income	$ 1,802	$ 1,857

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Note 25 - Retirement Plans

401(k) Plan

The Company sponsors a 401(k) Plan whereby substantially all employees age 21 and over with 90 days of service may participate. Participants may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Company does not contribute to the 401(k) Plan. The Company did not incur any material expenses attributable to the 401(k) Plan during 2013 or the three months ended March 31, 2014.

Employee Stock Ownership Plan

Substantially all employees with at least one year of service are covered by a discretionary employee stock ownership plan (ESOP). Contributions are made to the plan at the discretion of the Board of Directors. Contributions to the plan totaling $195,000 and $295,000 during the three months ended March 31, 2014 and 2013, respectively, are included in salary expense. Company shares owned by the ESOP are paid dividends and included in the calculation of earnings per share exactly as other common shares outstanding.

Deferred Compensation Plans

The Company has deferred compensation plans for certain directors and key executives, which allow certain directors and key executives designated by the Board of Directors of the Company to defer a portion of their compensation. The Company has purchased insurance on the lives of the participants and intends to hold these policies until death as a cost recovery of the Company s deferred compensation obligations of $7,351,000 and $7,357,000 at March 31, 2014 and December 31, 2013, respectively. Earnings credits on deferred balances totaling $152,000 and $147,000 during the three months ended March 31, 2014 and 2013, respectively, are included in noninterest expense.

Supplemental Retirement Plans

The Company has supplemental retirement plans for current and former directors and key executives. These plans are non-qualified defined benefit plans and are unsecured and unfunded. The Company has purchased insurance on the lives of the participants and intends (but is not required) to use the cash values of these policies to pay the retirement obligations. The following table sets forth the net periodic benefit cost recognized for the plans:

	Three months ended March 31,	
	2014	2013
	(In thousands)	
Net pension cost included the following components:		
Service cost-benefits earned during the period	$ 163	$ 185
Interest cost on projected benefit obligation	174	160
Amortization of net obligation at transition		
Amortization of prior service cost	35	38
Recognized net actuarial loss	4	72
Net periodic pension cost	$ 376	$ 455

During the three months ended March 31, 2014 and 2013, the Company contributed and paid out as benefits $125,000 and $106,000, respectively, to participants under the plans. For the year ending December 31, 2014, the Company expects to contribute and pay out as benefits $569,000 to participants under the plans.

Note 26 - Related Party Transactions

Certain directors, officers, and companies with which they are associated were customers of, and had banking transactions with, the Company or the Bank in the ordinary course of business.

The following table summarizes the activity in these loans for 2014 and 2013 (in thousands):

Balance December 31, 2012	$ 2,368
Advances/new loans	1,154
Removed/payments	(886)
Balance December 31, 2013	$ 2,636
Advances/new loans	
Removed/payments	(1,119)
Balance March 31, 2014	$ 1,517

Director Chrysler is a principal owner and CEO of Modern Building Inc. Modern Building Inc. provided construction services to the Company related to new and existing Bank facilities for aggregate payments of $509,000 during the three months ended March 31, 2014 and $4,261,000 during the year ended December 31, 2013.

Note 27 - Fair Value Measurement

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, income approach, and/or the cost approach. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. Securities available-for-sale and mortgage servicing rights are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or impairment write-downs of individual assets.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observable nature of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Securities available for sale - Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. The Company had no securities classified as Level 3 during any of the periods covered in these financial statements.

Loans held for sale Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for loans with similar characteristics. As such, we classify those loans subjected to nonrecurring fair value adjustments as Level 2.

Impaired originated and PNCI loans Originated and PNCI loans are not recorded at fair value on a recurring basis. However, from time to time, an originated or PNCI loan is considered impaired and an allowance for loan losses is established. Originated and PNCI loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The fair value of an impaired originated or PNCI loan is estimated using one of several methods, including collateral value, fair value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired originated and PNCI loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired originated and PNCI loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value which uses substantially observable data, the Company records the impaired originated or PNCI loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, or the appraised value contains a significant unobservable assumption, such as deviations from comparable sales, and there is no observable market price, the Company records the impaired originated or PNCI loan as nonrecurring Level 3.

Foreclosed assets - Foreclosed assets include assets acquired through, or in lieu of, loan foreclosure. Foreclosed assets are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations and the assets are carried at the lower of carrying amount or fair value less cost to sell. When the fair value of foreclosed assets is based on an observable market price or a current appraised value which uses substantially observable data, the Company records the impaired originated loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, or the appraised value contains a significant unobservable assumption, such as deviations from comparable sales, and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense.

Mortgage servicing rights - Mortgage servicing rights are carried at fair value. A valuation model, which utilizes a discounted cash flow analysis using a discount rate and prepayment speed assumptions is used in the computation of the fair value measurement. While the prepayment speed assumption is currently quoted for comparable instruments, the discount rate assumption currently requires a significant degree of management judgment and is therefore considered an unobservable input. As such, the Company classifies mortgage servicing rights subjected to recurring fair value adjustments as Level 3. Additional information regarding mortgage servicing rights can be found in Note 10 in the consolidated financial statements at Item 1 of this report.

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The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis (in thousands):

Fair value at March 31, 2014	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Obligations of U.S. government corporations and agencies	$ 90,787		$ 90,787	
Obligations of states and political subdivisions	4,565		4,565	
Corporate debt securities	1,917		1,917	
Mortgage servicing rights	6,107			$ 6,107
Total assets measured at fair value	$ 103,376		$ 97,269	$ 6,107

Fair value at December 31, 2013	Total	Level 1	Level 2	Level 3
Securities available for sale:				
Obligations of U.S. government corporations and agencies	$ 97,143		$ 97,143	
Obligations of states and political subdivisions	5,589		5,589	
Corporate debt securities	1,915		1,915	
Mortgage servicing rights	6,165			$ 6,165
Total assets measured at fair value	$ 110,812		$ 104,647	$ 6,165

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Company s quarterly valuation process. There were no transfers between any levels during the three months ended March 31, 2014 or the year ended December 31, 2013.

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the time periods indicated. Had there been any transfer into or out of Level 3 during the time periods indicated, the amount included in the Transfers into (out of) Level 3 column would represent the beginning balance of an item in the period (interim quarter) during which it was transferred (in thousands):

Three months ended March 31,	Beginning Balance	Transfers into (out of) Level 3	Change Included in Earnings	Issuances	Ending Balance
2014: Mortgage servicing rights	$ 6,165		$ (181)	$ 123	$ 6,107
2013: Mortgage servicing rights	$ 4,552		$ (61)	$ 493	$ 4,984

The Company s method for determining the fair value of mortgage servicing rights is described in Note 1. The key unobservable inputs used in determining the fair value of mortgage servicing rights are mortgage prepayment speeds and the discount rate used to discount cash projected cash flows. Generally, any significant increases in the mortgage prepayment speed and discount rate utilized in the fair value measurement of the mortgage servicing rights will result in a negative fair value adjustments (and decrease in the fair value measurement). Conversely, a decrease in the mortgage prepayment speed and discount rate will result in a positive fair value adjustment (and increase in the fair value measurement). Note 10 contains additional information regarding mortgage servicing rights.

The following table presents quantitative information about recurring Level 3 fair value measurements at March 31, 2014:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Mortgage Servicing Rights	$ 6,107	Discounted cash flow	Constant prepayment rate Discount rate	6.0%-24.2%, 10.6% 10.0%-10.0%, 10.0%

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2013:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Mortgage Servicing Rights	$ 6,165	Discounted cash flow	Constant prepayment rate Discount rate	6.3%-33.0%, 10.3% 10.0%-12.0%, 10.0%

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The tables below present the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis, as of the dates indicated, that had a write-down or an additional allowance provided during the periods indicated (in thousands):

Three months ended March 31, 2014	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Fair value:					
Impaired Originated & PNCI loans	$ 21,498			$ 21,498	$ (272)
Foreclosed assets	802			802	(21)
Total assets measured at fair value	$ 22,300			$ 22,300	$ (293)

Year ended December 31, 2013	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Fair value:					
Impaired Originated & PNCI loans	$ 20,334			$ 20,334	$ (2,539)
Foreclosed assets	948			948	(397)
Total assets measured at fair value	$ 21,282			$ 21,282	$ (2,936)

Three months ended March 31, 2013	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Fair value:					
Impaired Originated & PNCI loans	$ 23,989			$ 23,989	$ (1,948)
Foreclosed assets	352			352	(27)
Total assets measured at fair value	$ 24,341			$ 24,341	$ (1,975)

The impaired Originated and PNCI loan amount above represents impaired, collateral dependent loans that have been adjusted to fair value. When we identify a collateral dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. The carrying value of loans fully charged-off is zero.

The foreclosed assets amount above represents impaired real estate that has been adjusted to fair value. Foreclosed assets represent real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the lower of the carrying amount of the loan or fair value less costs to sell, which becomes the property s new basis. Any write-downs based on the asset s fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. The loss represents impairments on non-covered other real estate owned for fair value adjustments based on the fair value of the real estate.

The Company s property appraisals are primarily based on the sales comparison approach and income approach methodologies, which consider recent sales of comparable properties, including their income generating characteristics, and then make adjustments to reflect the general assumptions that a market participant would make when analyzing the property for purchase. These adjustments may increase or decrease an appraised value and can vary significantly depending on the location, physical characteristics and income producing potential of each property. Additionally, the quality and volume of market information available at the time of the appraisal can vary from period to period and cause significant changes to the nature and magnitude of comparable sale adjustments. Given these variations, comparable sale adjustments are generally not a reliable indicator for how fair value will increase or decrease from period to period. Under certain circumstances, management discounts are applied based on specific characteristics of an individual property.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at March 31, 2014:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Impaired Originated & PNCI loans	$ 21,498	Sales comparison approach	Adjustment for differences between comparable sales	(5.0)%-(37.0)%, (10.4)%
		Income approach	Capitalization rate	7.75%-9.25 %, 8.92%
Foreclosed assets	$ 802	Sales comparison approach	Adjustment for differences between comparable sales	(5.0)%-(8.0)%, (6.99)%

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The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2013:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range, Weighted Average
Impaired Originated & PNCI loans	$ 20,334	Sales comparison approach	Adjustment for differences between comparable sales	(5.0)%-(56.4)%, (10.4)%
		Income approach	Capitalization rate	7.75%-9.25%, 8.91%
Foreclosed assets	$ 948	Sales comparison approach	Adjustment for differences between comparable sales	(6.5)%-(16.7)%, (8.9)%

In addition to the methods and assumptions used to estimate the fair value of each class of financial instrument noted above, the following methods and assumptions were used to estimate the fair value of other classes of financial instruments for which it is practical to estimate the fair value.

Short-term Instruments - Cash and due from banks, fed funds purchased and sold, interest receivable and payable, and short-term borrowings are considered short-term instruments. For these short-term instruments their carrying amount approximates their fair value.

Securities held to maturity The fair value of securities held to maturity is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. The Company had no securities held to maturity classified as Level 3 during any of the periods covered in these financial statements.

Restricted Equity Securities - The carrying value of restricted equity securities approximates fair value as the shares can only be redeemed by the issuing institution at par.

Originated and PNCI loans - The fair value of variable rate originated and PNCI loans is the current carrying value. The interest rates on these originated and PNCI loans are regularly adjusted to market rates. The fair value of other types of fixed rate originated and PNCI loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities. The allowance for loan losses is a reasonable estimate of the valuation allowance needed to adjust computed fair values for credit quality of certain originated and PNCI loans in the portfolio.

PCI Loans - PCI loans are measured at estimated fair value on the date of acquisition. Carrying value is calculated as the present value of expected cash flows and approximates fair value.

Deposit Liabilities - The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. These values do not consider the estimated fair value of the Company s core deposit intangible, which is a significant unrecognized asset of the Company. The fair value of time deposits and other borrowings is based on the discounted value of contractual cash flows.

Other Borrowings - The fair value of other borrowings is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

Junior Subordinated Debentures - The fair value of junior subordinated debentures is estimated using a discounted cash flow model. The future cash flows of these instruments are extended to the next available redemption date or maturity date as appropriate based upon the spreads of recent issuances or quotes from brokers for comparable bank holding companies compared to the contractual spread of each junior subordinated debenture measured at fair value.

Commitments to Extend Credit and Standby Letters of Credit - The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counter parties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counter parties at the reporting date.

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Fair values for financial instruments are management s estimates of the values at which the instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. In addition, other significant assets are not considered financial assets including, any mortgage banking operations, deferred tax assets, and premises and equipment. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of these estimates.

The estimated fair values of financial instruments that are reported at amortized cost in the Corporation s consolidated balance sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value, were as follows (in thousands):

	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Level 1 inputs:				
Cash and due from banks	$ 67,622	$ 67,622	$ 76,915	$ 76,915
Cash at Federal Reserve and other banks	434,629	434,629	521,453	521,453
Level 2 inputs:				
Securities held to maturity	344,523	341,966	240,504	233,807
Restricted equity securities	9,163	9,163	9,163	9,163
Loans held for sale	1,119	1,119	2,270	2,270
Level 3 inputs:				
Loans, net	1,648,730	1,735,928	1,672,007	1,760,274
Financial liabilities:				
Level 2 inputs:				
Deposits	2,411,120	2,411,870	2,410,483	2,411,402
Other borrowings	6,719	6,719	6,335	6,335
Junior subordinated debt	41,238	27,836	41,238	25,774
	Contract Amount	Fair Value	Contract Amount	Fair Value
Off-balance sheet:				
Level 3 inputs:				
Commitments	$ 574,725	$ 5,747	$ 555,386	$ 5,554
Standby letters of credit	5,312	53	2,601	26
Overdraft privilege commitments	68,121	681	68,932	689

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Note 28 - TriCo Bancshares Condensed Financial Statements (Parent Only)

Condensed Balance Sheets	March 31, 2014